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February 19, 1990

Pensions & Investments

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AT DEADLINE

S&L deals put on hold

Worsening conditions among savings and loans have caused the $10 billion Los Angeles County Retirement Association to put on hold plans to invest $200 million in that industry.

The fund's initial decision to invest had been crucial in that it was the first fund to make a commitment to the two limited partnerships — WSPG International, and Blackstone Group and Old Stone Corp.

Kass joins J.P. Morgan

Dennis Kass, who left his post as pension chief for the Labor Department in 1987 to join Goldman, Sachs, has moved to J.P. Morgan, a Morgan spokesman confirmed. Further details could not be learned by press time.

L.A. Fire, Police hires

Trustees for the $3.5 billion Los Angeles Fire & Police Pension System have decided to place $50 million with its three new real estate investment advisers. The amounts, firms and investment areas are: $10 million, PSI Institutional Realty, mini-warehouses; $15 million, Fayez Sarofim Realty Advisors/Weingarten Realty Investors, neighborhood shopping centers; and $25 million, Copley Real Estate Advisors, industrial properties.

Joint venture formed

Alex. Brown Inc., Baltimore, and Kleinwort Benson Group PLC, London, have formed a worldwide real estate investment advisory joint venture, Alex. Brown Realty Advisors/Kleinwort Benson, Baltimore, managing $4 billion in tax-exempt assets.

Global realty deals eyed

Eight institutional investors from at least five countries have agreed to invest $2 billion in real estate in Europe, North America and Australia.

Five of the investors in the deal — put together by Prudential Insurance and Jones Lang Wootton — are: SPP, Stockholm, Sweden's largest money manager; Government of Singapore Investment Corp. PTE Ltd.; Nationale-Nederlanden NV, The Hague; Australian Mutual Provident Society, Sydney, and Prudential Life.

Diversification evident

The largest U.S. corporate pension plans are continuing their trend toward diversification.

A new asset allocation study by Greenwich Associates, indicates international and equity real estate received an increasing proportion of the assets of corporate funds. Passive investments among public pension funds rose three percentage points between 1988 and 1989. Use of actively managed common stocks continued its decline among both corporate and public plans.

Drexel fall shifts focus to insurers

Quality of other assets under scrutiny

By Marcia Parker and Hillary Durgin

The plunge of the junk-bond market, which brought about the demise of Drexel Burnham Lambert Inc., has prompted scrutiny of the quality of all the assets insurance companies use to back their pension annuities and guaranteed investment contracts.

The junk-bond plunge will have only a small impact on insurance industry annuities and GICs backing the pensions of millions of employees. Most annuities and GICs are supported by more than junk bonds.

So far, no retirement benefits have been lost because of the decline in value of the insurance industry's multibillion-dollar portfolios of junk bonds.

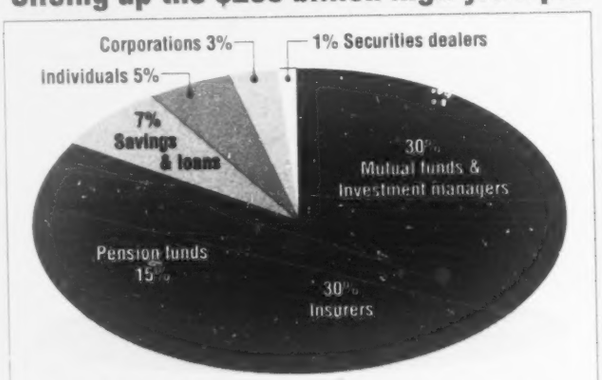
And while a complete collapse of the junk-bond market might trigger GIC or annuity defaults that would be devastating for thousands of beneficiaries of individual plans, it would not significantly impair the health of the pension industry overall.

The average defined benefit pension plan has only 3.2% of its assets in GICs. The average defined contribution plan is more heavily invested in GICs at 35.7%. But defined contribution plans cover only half as many employees as defined benefit plans.

But the collapse of the high-

See **Junk** *on page 45*

Slicing up the $200 billion high-yield pie



Source: U.S. GAO & Drexel Burnham Lambert

Graphic by John Hall

Executives with camping supply-maker Coleman Co. came under fire for their decisions in selecting annuities for pension liabilities.

Annuity purchases under Capitol glare

By Joel Chernoff

WASHINGTON — Congress wants to close a gaping hole in participants' benefit security by drafting tougher rules for purchasing annuities.

In the wake of First Executive Corp.'s $515 million write-off in its junk-bond portfolio, Congress is scrutinizing standards used in purchasing annuities, insurers' soundness in underwriting those contracts, and whether those benefits are safeguarded adequately.

Ultimately, this examination

See **Annuities** *on page 46*

Labor Department retargets LBO terms

By Joel Chernoff

Less than five years after halting Scott & Fetzer Co.'s proposed leveraged buy-out, the Department of Labor once again is stalking LBOs it says fail to give employee stock ownership plans a fair shake.

In a lawsuit that one Labor Department official described as representing a potential "landmark case," the government has sued Valley National Bank of Arizona and eight officers of Scottsdale-based Kroy Inc. for allegedly overcharging Kroy's ESOP for shares it purchased as part of the company's December 1986 leveraged buy-out.

The government alleged the ESOP was forced to pay $5.92 per share for its 6 million shares — more than five times the $1.125 per share paid by other investors. The Labor Department took its strongest shots at Valley National, the ESOP's trustee, for allegedly failing to conduct a good faith, independent investigation in allowing the ESOP to overpay for the stock.

ESOP advocates argue the Labor Department's position effectively will kill leveraged buy-outs that use ESOPs. "You're going to kill the goose that lays the golden eggs," said Rick Braun, managing director at Houlihan, Lokey Howard & Zukin Inc., a Los Angeles valuation firm.

The Labor Department's lawsuit is similar to its intervention in Westlake, Ohio-based Scott & Fetzer's aborted August 1985 buy-out. There, the government stepped in while the transaction was under way and argued the proposed Scott & Fetzer ESOP was getting only 41% of the company's shares while putting up the majority of the equity financing.

The department's involvement effectively scotched the deal. Scott & Fetzer instead was sold to Berkshire Hathaway Inc., Omaha, Neb., and few other similar deals have been transacted since.

But ESOP proponents — notably Kelso & Co., New York, which was the investment banker on the Scott & Fetzer deal — later raised a ruckus about the Labor Department's action, lobbying then-Labor Secretary William Brock on the issue and virtually calling for the heads of certain department officials.

The Labor Department adopted a conciliatory note, promising to provide guidance to the ESOP community about leveraged buy-out deals involving multiple investors.

It appears the department's long-delayed guidance finally has arrived — although it is far from the stance sought by ESOP supporters.

Rather, the government has resurrected the theory it embraced in the Scott & Fetzer transaction.

The department is saying an ESOP must be given a share of the company's stock proportionate to the amount of equity financing it provides.

"An ESOP's investment, on a dollar-for-dollar basis, should have the same purchasing power as any other cash investor," David George Ball, assistant secretary of labor, said in a recent speech.

"Workers, through the ESOP, are entitled to get a dollar's worth of stock for each dollar the ESOP has invested with the proceeds of the ESOP loan, just as management and investment bankers are entitled to get a dollar's worth of

See **Kroy ESOP** *on page 46*

NEWS DIGEST

Concern about oil spills and other environmental threats has evolved into a set of principles that is gaining support from state and local governments. Page 43.

Small employers are crying foul over an IRS targeted audit program challenging actuarial assumptions. Page 4.

SPECIAL REPORT: PIPER

The year-end PIPER survey chronicles the performance of insurance company and bank funds, as well as independent managers. Page 16.

FINANCING

The fall of Drexel Burnham Lambert Inc. and the junk bond market is putting the state of insurance industry investments under a magnifying glass. Page 1.

West German merger and acquisition activity is starting to heat up. Page 39.

INTERNATIONAL

Financial authorities are stepping up their liberalization efforts of the West German capital markets. Page 38.

REAL ESTATE

Equitable Real Estate has signed up five public funds for a new closed-end vehicle. Page 4.

Office vacancy levels will remain high and continue to hold down performance. Page 37.

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Holtzman to turn up heat

NYC comptroller defines agenda

By Hillary Durgin

NEW YORK — Corporate America watch out.

New York City's new comptroller, Elizabeth Holtzman, intends to expand the role of public funds as corporate watchdogs by challenging all areas of company performance, from environmental to worker safety issues.

The city's chief fiscal officer, who oversees the $41.4 billion city retirement system, is redefining the vanguard tradition of the activist pension fund. The ex-congresswoman and prosecuting district attorney from Brooklyn promises to keep the pressure on corporate America by carrying on the legacy of her predecessor, Harrison J. Goldin. Mr. Goldin was one of the first public pension fund executives to hold companies accountable to shareholders.

"We're in a much more competitive environment," Ms. Holtzman said. "And if this country becomes a second-rate economy, the pension funds are going to be big losers."

In a recent interview with *Pensions & Investments*, Ms. Holtzman laid out for the first time her vision of how the fund will pursue its course of pension fund activism with respect to social investing and corporate governance.

Under Mr. Goldin, the fund sponsored and co-sponsored shareholder resolutions on procedural issues, including poison pills and secret ballots; it also has been a strong proponent of the Statement of Principles and the MacBride Principles, which guide corporate conduct in South Africa and Northern Ireland, respectively.

At the time of the Exxon Valdez oil spill in Alaska, Mr. Goldin became one of the first pension fund officials to begin discussions with corporate management when he threatened to cast the system's 6 million votes at Exxon's then-upcoming annual meeting against the board of directors if the board didn't take responsibility for the spill and hasten the cleanup.

Ms. Holtzman plans to take activism a step further and focus on all aspects of corporate performance.

"What I'm concerned to see is the corporations we invest in pro-

See **Holtzman** *on page 43*

Photo by Alice Garik

Elizabeth Holtzman is broadening her fund's activism.

AP/Wide World photo

Despite the release of Nelson Mandela from a South African prison, institutional investors say they will not loosen their economic pressure on the country until its apartheid policies are abolished.

S. Africa still captive to pressure

By Trudy Ring

While Nelson Mandela has gained his freedom, the government of South Africa is still shackled by worldwide financial and economic pressures.

Institutional investors in the United States and elsewhere plan to maintain investment restrictions and other means of economic pressure on South Africa, despite recent developments in that country.

No domestic pension fund contacted for this article plans to change its policy on South Africa in the near future, despite the legalization of the African National Congress and release of Mr. Mandela, its leader. In the United Kingdom, the number of pension funds with restrictions on South Africa-related investments actually is expected to grow, according to a study by Pensions & Investment Research Consultants Ltd., London (see *related story on page 42*).

"Our policy is significantly aimed at the abolishment of

See **S. Africa** *on page 42*

Activists get nod from Ball

By Marcia Parker

Activist institutional investors now have the blessings of Assistant Secretary of Labor David George Ball.

Until now, the views of Mr. Ball, the federal government's top retirement and employee benefit official, on the growing involvement of institutional shareholders in proxy voting and corporate governance were not well known. Since he was named to the post less than a year ago by Secretary of Labor Elizabeth Dole, the former Amax Co. executive has maintained a low profile.

Indeed, members of the institutional investing community have wondered whether the Labor Department would continue to expand on what has been in recent years a stepped-up watchdog and enforcement program.

Mr. Ball's support for institutional investors came in a Jan. 23 speech to the Financial Executives Institute on the Labor Department's proxy voting guidelines. It was reinforced in a letter from another department official to a group that raised concerns about proxy voting policies of some investment managers.

In a strong endorsement, Mr. Ball took up the flag for the cause of institutional investors campaigning for a greater role in the corporations they own.

"I believe that as institutional shareholders own an ever greater portion of corporate America, it is

See **Proxy** *on page 47*

Managers survey under way

Pensions & Investments has sent out questionnaires for its annual directory of investment advisers. If your firm has not received a questionnaire and would like to participate, or if you have any questions regarding the form, please contact Christine Philip, directory coordinator, *Pensions & Investments*, 740 N. Rush St., Chicago, Ill. 60611-2590; (312) 649-5217.

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5 public plans invest in specific-site fund

By Terry Williams

NEW YORK — Five public pension plans have invested $496.6 million in an Equitable Real Estate Investment Management Inc. closed-end commingled fund of seven specified properties.

Pensions & Investments learned investors include the $44.2 billion New York State & Local Retirement Systems, the $28.1 billion New York State Teachers' Retirement System and the $4.3 billion Illinois Municipal Retirement Fund.

The $3.9 billion Utah State Retirement Fund and the $20 billion State of Wisconsin Investment Board reportedly also are subscribers, but this could not be confirmed with fund officials.

Called the Select Properties Fund, the vehicle includes two regional malls, four office buildings and a research and development complex, according to Jonathan Miller, a spokesman with Equitable Real Estate. The fund has a 15-year holding period and no other properties are to be added.

Mr. Miller described the malls as having about 1 million square feet each and being "fully tenanted" with strong anchors. The office buildings also are well leased, with occupancy more than 97%. He declined to identify or locate the properties, saying only they are diversified geographically.

The properties do not have high profiles outside of the respective cities, according to Mr. Miller.

"It's not the Sears Tower," said Bob Hinckley, a spokesman with the New York State & Local system, Albany, which invested $147.7 million in the closed-end fund. "Unless you lived there, you wouldn't know of these properties."

Mr. Miller and representatives from the other subscribers would not say how much they invested in Select Properties. A real estate professional familiar with the deal, however, said subscriptions ranged from $100 million to $150 million.

Property-specific funds have been gaining in popularity among institutional investors — at the expense of blind pools — because of recent low real estate returns and greater information about the assets in the portfolio.

"The basic concept is investors would rather invest in a situation where they can know how it's going to affect their portfolio," said Jake Young, a consultant with Roulac Real Estate Consulting Group, Chicago.

Paul Saint-Pierre, president of Pension Realty Advisors, San Francisco, said he thinks property-specific funds will continue to become more popular than blind pools.

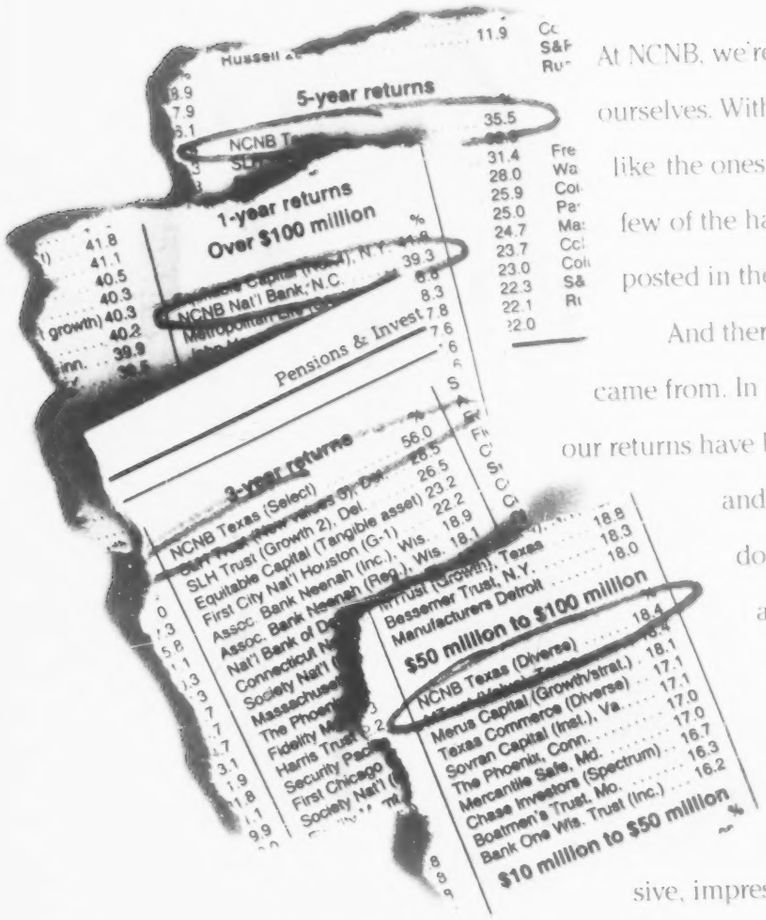
"As investors in real estate approach the industry with more caution, they're going to want more information about the asset. It's a risk management technique."

CORRECTIONS & CLARIFICATIONS

• Incorrect data for the New York City Teachers' Variable Funds A and B were included as part of the **New York City Retirement Systems** profile Jan. 22. As of Sept. 30, the city systems' employee benefit assets totaled $41.404 billion, an increase of 16.5% from the $35.537 billion reported a year earlier. At $41.404 billion, the city drops to No. 5 from No. 3 among the Top 200 funds.

• The assets of **Atlantic Portfolio Analytics & Management Inc.** were misclassified in the Feb. 5 Scorecard survey. The firm, with a net gain of $417 million in mortgage-backed securities, would have ranked second on the fixed-income growth chart for managers with $250 million to $1 billion under management.

Rest Easy, Knowing Your Money Won't.



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A bit shy of the bull's-eye

Funds fall short of bogeys for fourth quarter

By Trudy Ring

Median equity and fixed-income funds in the PIPER+ universe lagged their benchmarks in the fourth quarter, while a majority of balanced and tactical asset allocation funds underperformed both stock and bond yardsticks.

The median equity fund returned -0.27% in the quarter, while the Standard & Poor's 500 Stock Index was up 2.1%. The median fixed-income fund returned 3.2%, while the Shearson Lehman Hutton Government/Corporate Bond Index had 3.6%. The median balanced and/or tactical asset allocation fund returned 1.8%.

The PIPER+ universe comprises 379 equity, 233 fixed-income and 151 balanced/TAA funds managed by investment counseling firms. The universe is still evolving; thus some managers missed the deadline for filing their returns. It also has a slight upward bias, with managers who have good returns being more inclined to report them early. The universe is compiled for *Pensions & Investments* by Rogers, Casey & Associates, Darien, Conn. Managers are allowed to submit a representative fund or composite of accounts.

For 1989, the median equity fund returned 27.4%, while the S&P 500 was up 31.6%. For the three years ended Dec. 31, the equity median was 16.2% on a compound annual basis, and the index return 17.3%; for the five-year period, the median was 19.8% and the index, 20.3%. For the 10 years, the median fund outperformed the S&P 500, 19.1% to 17.6%.

Among fixed-income funds, the median return for 1989 was 12.3%, compared with 14.2% for the Shearson Lehman Hutton index. For the three years, the median fund beat the index slightly, 8.1% to 7.9%. This also was the case for the five-year period, with 12.2% for the median and 12% for the index, and the 10-year period, with 12.3% for the median and 12.2% for the index.

The balanced/TAA median lagged stocks but beat bonds in 1989, with a 20.4% return. The median return for these funds for the three-year period was 12.9%; for the five-year period, 16.8%; and for the 10-year period, 15.8%.

Frontier Capital Management Co., Boston, had the quarter's top equity performance with its energy/equity plus cash account, which returned 14.1%. It was second for the year with 59.4% and seventh for the three-year period with a compound annual 26.4%. Frontier officials did not return calls for comment on their investment strategy.

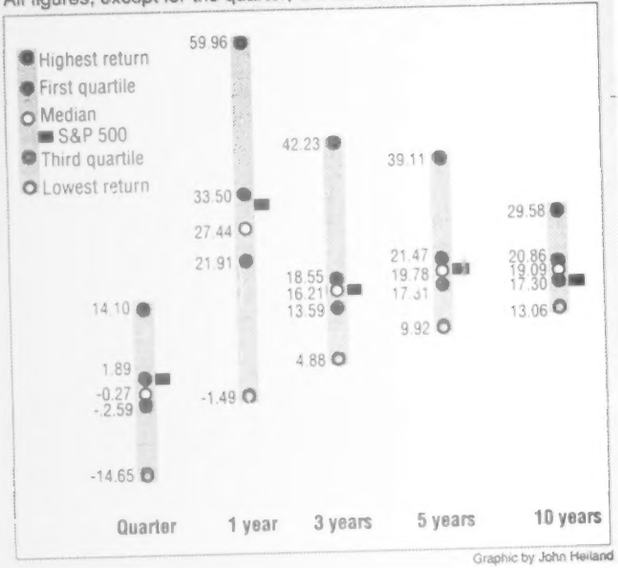
Cheswick Investment Inc., Greenwich, Conn., had the best return — 60% — for the one-year period. "Our results reflect a concentrated portfolio of high-quality growth stocks," said Richard Cheswick, chief executive officer.

Holdings include **Alva Corp.**, **Merck & Co. Inc.**, **Philip Morris Cos. Inc.**, **Eli Lilly & Co.** and **Coca-Cola Co.** During the year, Cheswick also was helped by its holdings in warrants on Alva, Lilly and the Federal National

See **Fall short** *on page 16*

PIPER+ equity funds
(period ended Dec. 31)

All figures, except for the quarter, are annualized total returns



Graphic by John Heiland

Growth niches make the difference for stock firms

PIPER special equity funds
(periods ended Dec. 31)

	Quarter	1 yr.	3 yr.	5 yr.	10 yr.
Highest return	6.57%	47.71%	33.91%	34.17%	20.78%
First quartile	0.01	32.25	18.27	19.62	18.13
Median	-2.57	23.92	14.42	16.48	16.17
Third quartile	-4.05	18.79	11.46	13.53	13.14
Lowest return	-10.35	4.36	5.76	6.57	10.97
S&P 500	**2.06**	**31.55**	**17.30**	**20.34**	**17.57**
Russell 2000	**4.95**	**16.24**	**9.82**	**12.90**	**14.52**

PIPER+ special equity funds
(periods ended Dec. 31)

	Quarter	1 yr.	3 yr.	5 yr.	10 yr.
Highest return	4.30%	64.52%	27.28%	26.67%	27.03%
First quartile	-1.38	36.39	18.04	20.59	23.18
Median	-3.68	25.25	15.79	18.93	20.69
Third quartile	-4.65	20.62	12.24	16.28	16.76
Lowest return	-9.50	10.19	7.09	10.34	13.48
S&P 500	**2.06**	**31.55**	**17.30**	**20.34**	**17.57**
Russell 2000	**4.95**	**16.24**	**9.82**	**12.90**	**14.52**

By Hillary Durgin

The top performing special equity managers for 1989 selected stocks with strong earnings growth potential from industry sectors including healthcare, energy and technology.

Managers participating in the Pensions & Investments' Performance Evaluation Report and PIPER+ unearthed market niches winning them high returns. Dynamic earnings growth apparently was the key to top performance for both the short and long term.

The top finisher in the PIPER+ universe of special equity funds run by investment counseling firms was the small-cap portfolio of Fred Alger Management Inc., New York, which returned 64.53% for the year. The $14 million portfolio is a mutual fund.

The median fund in the 74-fund PIPER+ special equity universe returned 25.25% for the year, compared with the Standard & Poor's 500 Stock Index's 31.55% and the Russell 2000 Index's 16.24%.

The PIPER+ universe, which covers funds managed by investment counseling firms, is still evolving, thus some managers missed the deadline for filing their returns. It also has a slight upward bias, with managers who have good returns being more inclined to report them early. Managers are allowed to submit a representative fund or composite of accounts.

Equitable Capital Management Corp., New York, which posted a return of 47.71% on its $31 million special growth common stock fund, was the top finisher among the bank and insurance company commingled funds in the PIPER universe.

The median special equity fund in the 98-fund PIPER universe returned 23.92%.

Both PIPER and PIPER+ are compiled for *Pensions & Investments* by Rogers, Casey & Associates, Darien, Conn.

The Fred Alger fund invests in companies that have a 30% annual growth rate and range from $40 million to $1 billion in market capitalization, or an average of $300 million, said David Alger, executive vice president and portfolio manager for the fund.

"The strategy is essentially buying companies that are growing very rapidly," Mr. Alger said.

In an effort to identify investment opportunities, the firm's 20-person research staff follows 1,500 companies under $1 billion, and from those selects candidates that have distinguished themselves in market niches through new product offerings, better management or growing market share.

In the past year, Fred Alger's small-cap fund has benefited from investments in special technology, including **Conner Peripherals Inc.**, which makes small disk drives for laptop computers; medical technology, including **Mylan Labs Inc.**, which is manufacturing a new drug product; niche restaurant companies, including **Max & Erma's Restaurants Inc.**, an upscale ham-

See **Growth** *on page 23*

Top two deciles
PIPER+ equity funds

3-month returns

	%
Frontier Capital (Energy)	14.1
W.H. Reaves (Utility Energy)	9.0
Trust Co. West (Strategy)	6.8
Scudder Stevens Clark (Growth)	5.6
NFJ Invst. Group (Select)	5.6
Cutler & Co.	5.1
Berg Capital	4.8
Scudder Stevens Clark (VL)	4.8
Givens Hall Capital	4.6
Securities Res. (Putnam Voyager)	4.5
BRS Capital (Select)	4.5
Birmingham Capital (Total)	4.5
Atlanta Capital (Quality)	4.4
Scudder Stevens Clark (Growth)	4.3
Frontier Capital (Trad. growth)	4.1
Chase Invst. Counsel	4.1
Pacific Invst. (S.A. free)	4.1
Mitchell Hutchins (Select)	4.1
Securities Res. (AIM Weingarten)	3.9
Lee, Robinson & Steine	3.7
Webster Capital (Max. return)	3.6
J & W Seligman (Growth inc.)	3.3
Securities Res. (Charter Nat'l)	3.1
BRS Capital (Active WASF)	3.0
Securities Res. (Dreyfus 3rd Cent.)	2.9
Westridge (Enhanced index)	2.7
Aetna Capital	2.7
Investors Research (Select)	2.7
Marinvest (Comb. opportunity)	2.6
Sunbank Capital	2.5
Caldwell & Orkin	2.4
John McStay	2.4
Securities Res. (Dreyfus growth)	2.4
Pacific invst. (Plus)	2.3
Newell Associates (Rel. yield)	2.3
TSA Securities (Active core)	2.3
Securities Counselors of Iowa	2.3
Jundt Capen Assoc. (Large cap.)	2.2
Wilke Capital (Core growth)	2.2
S&P 500	**2.1**

1-year returns

	%
Cheswick Invst.	60.0
Frontier Capital (Energy)	59.4
Provident Invst. Counsel (Stellar)	50.1
Beacon Invst.	49.8
Provident Invst. Counsel	46.7
Mt. Auburn Mgmt.	45.9
Investors Research (Growth)	44.5
Lehman Ark Mgmt. (Spec. sit.)	43.6
Trust Co. West (Strategy)	42.1
Trust Co. West (Special)	41.6
Investors Research (Select)	40.9
Scudder Stevens Clark (Growth)	40.6
Frontier Capital (Trad. growth)	39.9
Tukman Capital (Active)	39.9
Fred Alger Mgmt.	39.5
W.H. Reaves (Utility energy)	39.4
Mass. Financial (Low vol.)	39.2
Atlanta Capital (Growth)	38.9
Value Line (Standard)	38.4
Delta Financial (Agg. growth)	38.4
Chase Invst. Counsel	37.8
Jundt Capen (Large cap.)	37.6
J & W Seligman (Growth)	37.4
John McStay	37.3
Aetna Capital	36.8
General American (Closed end)	36.8
IDS Advisory (Lg. cap. growth)	36.8
Atlanta Capital (Quality)	36.1
Cadence Capital (Small cap.)	36.1
Crescent (Enhanced index)	36.0
Campbell Advisors (Growth)	35.9
Securities Res. (Putnam Voyager)	35.9
Chase Investors (Sm. cap. value)	35.9
Sunbank Capital	35.8
Hellman, Jordan	35.4
Wilshire Asset (Lg. co. growth)	35.3
Cutler & Co.	35.2
IDS Advisory	35.2
Givens Hall Capital	35.2
S&P 500	**31.6**

3-year returns

	%
NFJ Invst. Group (Select)	42.2
Wilshire Asset (Lg. co. growth)	38.3
C.H. Brown (Computer)	32.0
Crescent (Enhanced index)	29.9
John McStay (Small cap.)	27.9
Provident Invst. Counsel (Stellar)	26.6
Frontier Capital (Energy)	26.4
Mt. Auburn Mgmt.	25.5
Cadence Capital (Small cap.)	25.4
Junika & Voyles	24.7
Argus Investors' Counsel	24.6
Brinson Partners	23.5
Steven J. Margaretic	22.3
Tukman Capital (Active)	22.2
Cheswick Invst.	22.0
IDS Advisory (Lg. cap. gro.)	21.8
GAMCO Investors	21.3
Investment Counselors	21.1
Junika & Voyles	21.0
Eagle Asset Mgmt.	20.9
Hellman, Jordan	20.9
Chase Investors (Sm. cap. value)	20.9
Securities Res. (Kemper Summit)	20.4
Pennsylvania Invst (Dyn. value)	20.4
Beacon Invst.	20.1
Securities Res. (Dreyfus growth)	19.9
Investors Research (Growth)	19.7
Westridge (Enhanced index)	19.6
Systematic Financial (Hi. cash)	19.5
John McStay	19.4
Cadence Capital (Lg. cap.)	19.2
Sirach Finn. Elvins Capital	19.2
Rosenberg Institutional (Core)	19.1
Cramer Rosenthal McGlynn	19.1
Hellman, Jordan (Rep. combus.)	19.1
S&P 500	**17.3**

5-year returns

	%
NFJ Invst. (Select)	39.1

Continued on page 18

Growth equities still lead the way

By Leonard J. Hollie

Analysts are predicting value stocks will make a comeback in the 1990s, but for the last quarter of the 1980s, growth stocks continued to lead among PIPER equity funds.

In fixed income, longer maturities boosted the leaders in the quarter, while high-yield bonds proved beneficial in the mid- and long-term.

In a volatile market for both stocks and bonds, the Standard & Poor's 500 Stock Index returned 2.06% for the quarter and 31.55% for the year. The median PIPER equity fund returned 1.14% for the quarter and 27.48% for the year.

In the fixed-income market, the Shearson Lehman Hutton Government/Corporate Bond Index returned 3.61% for the quarter and 14.22% for the year. The PIPER median fixed-income fund returned 3.33% for the quarter and 13.01% for the year.

PIPER returns reflect the performance of bank and insurance company commingled funds and were compiled by Rogers, Casey & Associates, Darien, Conn.

Shearson Lehman Hutton Trust Co.'s Flex Growth 7 fund again led all 337 pooled equity funds, returning 51.11% for the year ended Dec. 31. The fund also had led the year in two previous quarters.

Equitable Capital Management Corp.'s Fund No. 4 was second, returning 45.4%. Chancellor Capital Management's Select Growth Fund was third, returning 44.67%.

"In 1988, cyclical stocks did well, but in 1989 it was just the opposite," said Larry Tashjian, executive vice president for Provident Investment Counsel, which is the adviser to the $5 million Shearson fund.

"Our portfolio does well in periods when there is consistency and predictability in market interest rates," said Mr. Tashjian, who added individual stock returns were helped by about 34% of the market's overall returns coming from leveraged buy-outs and company restructurings.

He said the Shearson fund found success in picking stocks of quality companies with strong earnings-per-share growth. Some of the stocks in the portfolio include **Toys "R" Us Inc.**, **Wal-Mart Stores Inc.**, **Waste Management Inc.** and the **Student Loan Marketing Association**.

Al Stewart, manager of Equitable's $1.25 billion Fund No. 4, said he was looking to buy stocks for the growth-oriented account that will grow far more than the overall economy. Some of the stocks in the portfolio include **Loews Corp.**, **McCaw Cellular Communications Inc.** and **GTE Corp.**

For the fourth quarter, Bank One Wisconsin Trust, Milwaukee, bested the field with its Growth Equity Fund, returning 5.43%. NCNB Texas' Growth Equity fund was second returning 5.17% and Liberty National Bank and Trust, Okla., placed third with its equity fund returning 5.11%.

The $25 million Bank One Growth Equity Fund is weighted in large-capital growth stocks with recognizable names that will attract foreign investors, said Scott D. Andrews, Bank One vice president in charge of investments and senior portfolio manager. Some of the stocks in the portfolio include **RJR Nabisco Inc.**, **Reebok International Ltd.**, **PepsiCo Inc.**, **Walt Disney Co.**, **General Electric Co.** and **L.A. Gear Inc.**

"What accounts for the fund's performance is the quality of the stocks held in the portfolio," said Mr. Andrews. "The fund is not actively traded. I don't buy and sell. I like to find names I can live with over a long period of time through good and bad markets."

For three-year performance, Denver-based United Capital Management's $48 million Equity Fund was first, returning 25.63% against an S&P 500 of 17.3%. PIPER returns for periods of more than one year are compound annualized.

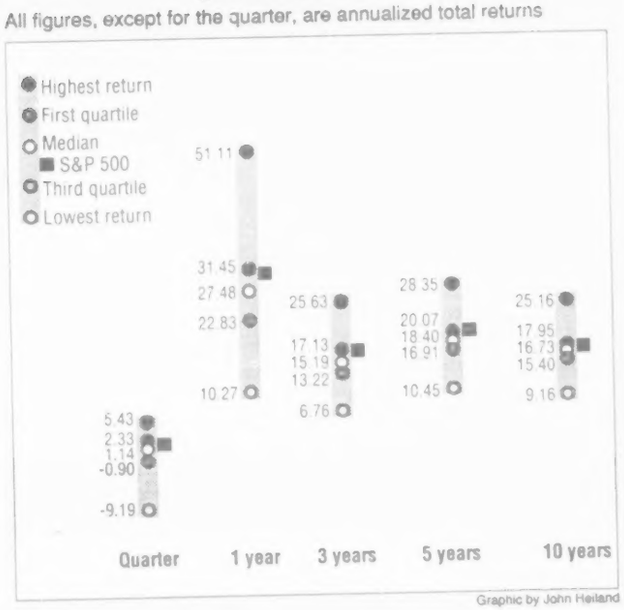
Lon Schreur, president of United Capital, said the fund's strategy is to pick strong industrial and manufacturing stocks that would benefit from a decline in the dollar and a pickup in exports. Some of the stocks in the portfolio include **Clark Equipment Co.**, **Caterpillar Inc.**, **Ingersoll-Rand Co.**, **Bethlehem Steel Corp.** and **Inland Steel Industries Inc.**

Sun Bank Capital Management, Orlando, Fla., led both the five- and 10-year returns with its $685 million equity fund. The fund returned 28.35% for the five years and 25.16% for the 10 years, vs. 20.34% and 17.57% respectively for the S&P 500.

See **PIPER** *on page 34*

PIPER equity funds
(periods ended Dec. 31)

All figures, except for the quarter, are annualized total returns



Graphic by John Heiland

Diversification helping realty

By Steve Hemmerick

Pension officers frequently are getting as good or better investment performance from their large, diversified, open-end commingled real estate funds run by insurance companies as from many of the higher risk specialized funds.

One of the insurance company funds, the $340 million Tower Fund of Metropolitan Life Insurance Co., New York, had a 14.52% return for the year ended Sept. 30, scoring in the top 10% of open-end commingled funds, according to Pensions & Investments' Performance Evaluation Report, which is compiled by Rogers, Casey & Associates Inc., Darien, Conn.

The Tower Fund, which invests in high-quality, highly diversified properties in secondary cities, such as Yuba City, Calif., had the third best performance among 39 open-end commingled funds for the one-year period.

For the same period, another insurance company fund, Equitable Real Estate Investment Management Inc.'s $3.6 billion Prime Property Fund was in the top 30% of open-end funds with a 10.59% return.

The Equitable fund is the largest in net assets of all open- and closed-end funds, and the larger funds are thought to be more difficult to manage.

Because the larger insurance company funds are well diversified, they are expected to provide stable and good performance, but not the highest performance in comparison with smaller funds that invest in narrow bands of real estate and are more risky.

Two other insurance company

See **Realty** *on page 34*

'80s end on high note for international

Managers finish year above benchmark

By Curtis Vosti

The last year of the 1980s was a heady time for the international managers in Pensions & Investments' Performance Evaluation Report.

The median PIPER international return, 17.54%, was higher than the international benchmark, the Morgan Stanley Capital International Europe Australia Far East Index, which returned 10.79%.

That distinguished performance also was true for the fourth quarter. CIGNA Corp.'s international equity account was the top performer, returning 13.2%. The median return of the 48 funds reporting was 4.8% for the quarter. EAFE returned 4.59%.

The $220 million CIGNA fund uses a top-down, geographic approach that tries to maximize risk-adjusted returns, according to Laurie LeBlanc, assistant vice president for product management, Hartford, Conn.

She said the fund enjoys one of the lowest volatilities in the international arena, hence it tries to focus on liquid, low-risk stocks among the 1,000 companies from the EAFE universe.

"We'd be more likely to get out of the market early and miss some of the upside, than to stay in too long," Ms. LeBlanc said.

Once the firm determines geographic slant, it uses a macroeconomic forecast to help determine sector allocation. The norm is to choose a blue-chip stock from within the chosen sectors.

The fund typically does not use currency hedging, Ms. LeBlanc said, preferring to make its currency bets through the geographic allocation. The fund has been completely out of Japan for the past 18 months, and can go into cash when bearish, as its current 22% position attests.

The strategy has worked well through the fund's five-year history. It finished the year with a second-best 29.27%, for the three-year period it was in the top decile, with 21.08% return, and for the five-year period it returned 34.25%. All PIPER returns for periods of more than one year are annualized.

But while CIGNA's fund has been a steady performer, it has been a roller-coaster ride for the top performer for the year, Wellington Trust Co.'s emerging stock portfolio.

The fund returned 29.97% for the year despite a poor 2.51% for the fourth quarter. That return placed it at the bottom of PIPER's ninth decile.

The up-and-down performance is due to the characteristics of the stocks in the portfolio — each having less than $250 million in annual sales, according to Marie-Claude Bernal, vice president and portfolio manager, Easton. "Small stocks are more volatile," she said. But she said the volatility is to be expected and will not harm the long-term performance of the fund.

The smallness of the companies, however, can hurt the fund during recoveries from market plunges, such as Oct. 13, 1989, and Oct. 19, 1987, she said.

"October (1989) was a big setback," she said. "But, generally, small companies tend to lag on the recovery side."

Although the setbacks can be brutal, Ms. Bernal said "in time" the fund's investment strategy will prove itself, even when pitted against other emerging markets' funds.

Using sales as a defining characteristic is purer than other emerging funds that use valuation levels that can bias the portfolio, she said.

For the year, Wellington's fund did so well in part because of takeovers of 7% of its holdings. While Ms. Bernal doesn't make bets on takeover prospects, she said the fund does consider the capital structure or family history behind the companies in its portfolio, characteristics that can be favorable for a takeover.

For the three-year period, Bankers Trust Co.'s international equity account was the top performer at 23.99%. The median return for the three-year period was 16.13%, and the EAFE return was 21.19%.

Bankers Trust is a consistent performer, finishing No. 5 for the quarter, No. 6 for the year and No. 5 for the five-year period.

The almost $300 million actively managed account uses a top-down, broadly diversified strategy, holding about 100 securities in the portfolio. The fund tries to identify global themes that will lead to sector selection, according to Alex Mour,* vice president of international marketing and sales.

For the five-year period ended Dec. 31, the top performing PIPER international fund was Chase Investors Chase Manhattan Bank's EAFE Index, which returned an annualized 36.75%, topping the EAFE's 36.52%. The median PIPER international fund returned an annualized 31.19% for the five-year period.

For the 10-year period, United States Trust Co. of New York returned an annualized 22.19%, while the EAFE return was 22.77%.

PIPER is compiled by Rogers, Casey & Associates, Darien, Conn. ■

Top two deciles PIPER commingled equity funds
3-month returns

	%
Bank One Wisconsin (Growth)	5.4
NCNB Texas (Growth)	5.2
Liberty Nat'l, Okla.	5.1
First Wisconsin (Income)	5.1
Mercantile Bank Joplin (A), Mo.	5.0
First Asset (II), Minn.	4.6
Lake Shore Nat'l, Ill.	4.6
Crestar Bank (Roanoke), Va.	4.6
First City Nat'l, Texas	4.6
First Kentucky Trust	4.6
Signet Trust (Value), Va.	4.6
Citizens Comm'l (Div. gro.), Mich.	4.4
Northern Trust (Select), Ill.	4.3
Summit Trust, N.J.	4.2
Equitable Capital (No. 4), N.Y.	4.2
Wheeling Dollar Bank, W. Va.	4.1
The Phoenix, Conn.	4.1
First Nat'l of Omaha (D), Neb.	4.1
Princeton Bank, N.J.	4.0
Columbus Bank, Ga.	4.0
First Bank Milwaukee	3.9
Summit Bank, Ind.	3.9
First Nat'l Kenosha (CT4001), Wis.	3.8
Chancellor (Select growth)	3.8
Mercantile Bank Joplin (C), Mo.	3.8
Bessemer Trust, N.Y.	3.6
Beverly Trust, Ill.	3.6
Great West Life (VAAA), Manitoba	3.5
Planters Nat'l (Growth), N.C.	3.5
Bank of Tokyo, N.Y.	3.5
Bank One Wisconsin (Income)	3.5
First Interstate of Oklahoma	3.5
Mercantile Bank, Mo.	3.5
Southtrust Bank, Ala.	3.4
Johnson County Bank, Kan.	3.3
Bank of New York	3.3

Continued on page 26

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Wilshire Asset (Lg. co. growth)	32.4
C.H. Brown (Computer)	31.5
Crescent (Enhanced index)	31.3
Cadence Capital (Small cap.)	30.6
Beacon Invst.	27.7
Junka & Voyles	26.9
Cheswick Invst.	26.0
Pennsylvania Invst. (Dyn. value)	25.5
Cadence Capital (Lg. cap.)	25.3
Argus Investors' Counsel	25.1
Tukman Capital (Active)	24.8
Nicholas-Applegate (Growth)	24.6
Steven J. Margaretic	24.5
Eagle Asset Mgmt.	24.4
Severn Associates (I)	24.3
Geewax Terker (H.Q. growth)	23.9
GAMCO Investors	23.7
Mitchell Hutchins (Select)	23.4
IDS Advisory (Lg. cap. gro.)	23.3
Becker Van Etten	23.1
Scudder Stevens Clark (Gr. inc.)	23.0
Caldwell & Orkin	22.9
W.H. Reaves (Utility energy)	22.7
Investors Research (Growth)	22.7
Securities Res. (Dreyfus growth)	22.7
Lehman Ark Mgmt. (Spec. sit.)	22.6
J.P. Morgan (Research)	22.5
Delta Financial (Agg. growth)	22.3
Trust Co. West (Strategy)	22.3
Scudder Stevens Clark (Growth)	22.0
S&P 500	**20.3**

10-year returns

	%
C.H. Brown (Computer)	29.6
Severn Associates (I)	27.2
GAMCO Investors	26.8
Securities Res. (Dreyfus growth)	26.4
Cadence Capital (Lg. cap.)	25.4
Cedar Hill Associates (Value)	24.6
Delta Financial (Agg. growth)	24.2
Hellman, Jordan	24.0
Eagle Asset Mgmt.	23.3
Steven J. Margaretic	23.0
Tukman Capital (Active)	22.9
Geewax Terker (Sect. rotation)	22.4
BRS Capital (Select)	22.1
Becker Van Etten	22.0
Miller Anderson & Sherrerd	22.0
Geewax Terker (H.Q. growth)	22.0
Investors Research (Select)	21.7
Wilshire Asset (Lg. co. growth)	21.6
Investment Counselors	21.6
Harbor Capital Mgmt.	21.6
S&P 500	**17.6**

Top two deciles PIPER + fixed-income funds

3-month returns

	%
McKee Invst.	7.5
Chancellor Capital	5.1
Discount Corp. of New York	5.1
Peters, Gamm & West	5.0
STW Fixed Income (Long comp.)	5.0
MIMLIC Asset (F)	4.3
Smith Affiliated Capital	4.2
Sirach Flinn, Elvins	4.2
IDS Advisory	4.1
Denver Invst. (Long)	4.0
Security Capital	4.0
Dewey Square Investors (Active)	4.0
Wright Investor's Service	3.9
MacKay-Shields	3.9
Aetna Capital (Cap. weighted)	3.8
Van Kampen Merritt (Enhanced)	3.8
Investment Counsel (Inter.)	3.8
Provident Invst.	3.8
Smith Affiliated (Municipal)	3.8
Sunbank Capital	3.7
Fred Alger Mgmt.	3.7
Haven Capital	3.7
SLH G.C	**3.6**

1-year returns

	%
McKee Invst.	20.6
Calamos Asset (Convert.)	19.4
Peters, Gamm & West	18.9
STW Fixed Income (Long)	18.5
Trust Co. West (Convert. GW)	17.6
Trust Co. West (Convert.)	16.9
Denver Invst. (Long term)	16.4
Smith Affiliated Capital	16.3
Chancellor Capital	15.9
J & W Seligman	15.5
MacKay-Shields (Convert. value)	15.5
IDS Advisory	15.3
Wright Investor's Service	15.2
Van Kampen Merritt (Enhanced)	15.0
Investment Counsel (Inter.)	14.9
Mellon Bond Assoc.	14.9
Standish, Ayer & Wood (S.A free)	14.9
Security Capital	14.8
Investment Counselors	14.8
Standish, Ayer & Wood (Active)	14.8
Sunbank Capital	14.7
MacKay-Shields (Convert. growth)	14.7
SLH G.C	**14.2**

3-year returns

	%
Sullivan Money Mgmt. (High yield)	12.0
McKee Invst.	11.7
Trust Co. West (Convert.)	10.6
MacKay-Shields (Convert. value)	10.4
Horsington Invst.	10.1
MIMLIC Asset (F)	10.1
Trust Co. West (Convert. GW)	9.5
Calamos Asset (Convert.)	9.4
Loomis, Sayles (Disc.)	9.4
STW Fixed Income (Long comp.)	9.3
Marinvest	9.1
Western Asset (Long term)	9.1

Continued on page 20

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PENSION PORTFOLIO ADVISORS

We Manage Performance

Continued from page 15

PRIMA (PRIMA X)	9.0
Brinson Partners	9.0
PRIMA (PRIMA VII)	9.0
Smith Affiliated (Municipal)	8.9
Trust Co. West (High yield)	8.9
STW Fixed Income (Short comp.)	8.9
Cooke & Bieler	8.7
Security Capital	8.7
Longfellow Invst. (Short duration)	8.7
SLH G C	**7.9**

5-year returns

	%
McKee Invst.	17.8
STW Fixed Income (Long comp.)	16.8
Trust Co. West (Convert.)	15.7
Trust Co. West (Convert. GW)	15.2
Denver Invst. (Long term)	15.2
Hoisington Invst.	15.0
Smith Affiliated	14.8
Loomis, Sayles (Disc.)	14.5
PRIMA (PRIMA X)	14.4
Calamos Asset (Convert.)	14.2
Trust Co. West (High Yield)	14.2
Peters, Gamm & West	14.0
Wright Investor's Service	13.7
Western Asset (Long term)	13.7
Foley Revy (Convert. only A C)	13.6
IDS Advisory	13.5
Standish, Ayer & Wood (Active)	13.4
Miller, Anderson & Sherrerd	13.2
Mass. Financial (Active)	13.2
SLH G C	**12.0**

10-year returns

	%
STW Fixed Income (Long comp.)	16.6
PRIMA (PRIMA X)	16.3
Smith Affiliated	16.2
Trust Co. West (Convert.)	15.8
Wilmington Trust (Bench. 30 year)	15.4
Trust Co. West (Convert. GW)	15.2
Calamos Asset (Convert.)	15.2
PRIMA (PRIMA VII)	15.1
Wilmington Trust (Seven year)	15.0
Western Asset (Long term)	14.8
Hoisington Invst.	14.7
PRIMA (PRIMA V)	14.5
Loomis, Sayles (Disc.)	14.5
SLH G C	**12.2**

Global investing: April 30

Top two deciles PIPER + Balanced/TAA funds

3-month returns

	%
Starbuck, Tisdale & Assoc.	5.3
Frontier Capital (Balanced)	4.5
Bankers Trust (TAA)	4.4
Criterion Invst. (Balanced)	4.1
Oxford Capital (Balanced)	3.9
BRS Capital (TAA model)	3.9
Bessemer Trust (Balanced)	3.7
Lee, Robinson & Steine (Balanced)	3.4
Chase Invst. (Risk averse bal.)	3.3
Chancellor (Stockshift 200)	3.1
Chancellor (Stockshift 100)	3.1
Chancellor (Stockshift 150)	3.1
Caldwell & Orkin (Total comp.)	2.9
Mass. Mutual (Balanced SIA-M)	2.9

1-year returns

	%
J & W Seligman (Balanced)	31.6
Beacon Invst. (Balanced)	31.2
Frontier Capital (Balanced)	31.1
Caldwell & Orkin (Total comp.)	30.9
Cheswick Invst. (Balanced)	30.3
Oxford Capital (Balanced)	28.7
Starbuck, Tisdale & Assoc.	27.8
Value Line (Balanced)	27.6
Fred Alger Mgmt. (Balanced)	26.8
IDS Advisory (Balanced)	26.8
Investment Counselors (Bal.)	25.9
Sirach Flinn, Elvins (Balanced)	25.9
Pinnacle Assoc. (Balanced)	25.9
Baring America (Balanced)	25.9

3-year returns

	%
Oxford Capital (Balanced)	24.8
Chancellor (Stockshift 200)	23.7
Investment Counselors (Bal.)	20.1
TSA Capital (Strat. TAA)	20.0
Chancellor (Stockshift 150)	19.6
Bankers Trust (TAA)	19.0
Jurika & Voyles (Reg. bal. equity)	16.9
Value Line (Balanced)	16.7
Brinson Partners (Dom. balanced)	16.4
Chancellor (Stockshift 100)	16.3
Mellon Equity (Quant. strat.)	16.2
Pinnacle Assoc. (Balanced)	15.7
Bessemer Trust (Balanced)	15.5

5-year returns

	%
Oxford Capital (Balanced)	28.0
TSA Capital (Strat. TAA)	23.3
Jurika & Voyles (Reg. bal. equity)	21.7
Bankers Trust (TAA)	21.2
Beacon Invst. (Balanced)	20.2
Mellon Equity (Quant. strat.)	20.1
Investment Counselors (Bal.)	20.0
Starbuck, Tisdale & Assoc.	19.3
Bessemer Trust (Balanced)	19.2
Caldwell & Orkin (Total comp.)	19.2
BRS Capital (TAA model)	18.7
IDS Trust (Balanced 50/80)	18.6

10-year returns

	%
BRS Capital (TAA model)	25.0
TSA Capital (Strat. TAA)	21.8
Caldwell & Orkin (Total comp.)	19.6
Wells Fargo Invst. (Three-way)	19.0
Investment Counselors (Bal.)	18.8
Miller, Anderson & Sherrerd (Bal.)	17.7

Top two deciles PIPER + special equity funds

3-month returns

	%
Criterion Invst. (Equity & cash)	4.3
Criterion Invst. (Equity only)	3.9
Securities Res. (Vance Sanders)	3.5
Securities Res. (Dreyfus leverage)	3.4
Jundt Capen (Small cap.)	2.8
Berents Capital (Agg. G)	2.4
Securities Res. (Growth)	2.3
S&P 500	**2.1**
Brinson Partners (1st post ven.)	1.6
Russell 2000	**5.0**

1-year returns

	%
Fred Alger Mgmt (Small cap.)	64.5
Criterion Invst. (Equity only)	42.1
Berents Capital (Agg. G)	39.7
Wall Street Assoc. (Sm. cap. gro.)	39.1
Goldman Asset (Seg. linked)	39.0
Columbus Circle (Comp.)	38.3
Peregrine Capital (Agg. sm. cap.)	37.0
Jundt Capen Assoc. (Small cap.)	36.8
S&P 500	**31.6**
Russell 2000	**16.2**

3-year returns

	%
Jundt Capen Assoc. (Small cap.)	27.9
Fred Alger Mgmt (Small cap.)	23.9
Brinson Partners (1st post ven.)	23.3
Putnam Cos. (Growth)	20.4
Frontier Capital (Small cap.)	19.4
Wall Street Assoc. (Sm. cap. gro.)	19.1
Securities Res. (Spec.)	19.0
Columbus Circle (Comp.)	19.0
S&P 500	**17.3**
Russell 2000	**9.8**

5-year returns

	%
Frontier Capital (Small cap.)	26.7
Jundt Capen Assoc. (Small cap.)	26.2
Columbus Circle (Comp.)	24.7
Putnam Cos. (Growth)	23.5
Putnam Cos. (Emerg. gro.)	23.4
Cramer Rosenthal McGlynn	22.3
Wall Street Assoc. (Sm. cap. gro.)	21.5
S&P 500	**20.3**
Russell 2000	**12.9**

10-year returns

	%
Nicholas-Applegate (Emerg. gro.)	27.0
Wall Street Assoc. (Sm. cap. gro.)	26.3
Wilshire Asset (Sm. co. value)	24.1
Brandywine (Low p.e. II sm. cap.)	23.4
S&P 500	**17.6**
Russell 2000	**14.5**

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Fall short

Continued from page 16

Mortgage Association, and Americus Scores on Merck and Philip Morris.

Cheswick, with $300 million under management, also ranked in the top 10% of equity returns for the three- and five-year periods in PIPER +.

Top performer for the three- and five-year periods was NFJ Investment Group Inc., Dallas, with its select equity strategy. The $12 million fund had a compound annual 42.2% for the three years and 39.1% for the five-year period. The figures include the period when this money was managed by NFJ's principals at RepublicBank Dallas, where the select fund started in 1985; NFJ was formed early in 1989.

The strategy is undiversified, with less than 10 stocks at a given time. Stocks are selected according to value variables, such as price-earnings ratios, yields and underlying asset value. The portfolio holds cash if there are not enough attractive stocks to buy. At year-end, it had 45% cash and two holdings, **Giddings and Lewis Inc.** and **Rhone-Poulac** Series A preferred, said Ben Fischer, managing director.

McKee Investment Management Co., San Francisco, had the quarter's top fixed-income fund, returning 7.5%. The fund also was No. 1 for the year with 20.6%, second for the three-year period with 11.7%, and back on top for the five-year period with 17.8%. It was too new for the 10-year period.

Stuart McKee, president, said the fund has a slight edge over the typical fixed-income fund because it uses between 40 and 50 stocks, mostly utilities, as bond substitutes when their current yield and dividend growth projections exceed long bond yields by at least three percentage points.

He doesn't consider this fund a balanced fund, however, because the stocks represent a tiny fraction of the S&P 500 and are interest-sensitive vehicles, fluctuating with the bond market.

The composite submitted for PIPER + was between 40% and 50% invested in these substitutes in the fourth quarter, Mr. McKee said. The remainder of the composite was largely in mortgage-related securities. The investment strategy is based on relative value and mathematical risk in fixed-income sectors. The composite totals $72 million.

STW Fixed Income Management Inc., Santa Barbara, Calif., had the best 10-year performance with its long composite, which returned 16.6%. It was second for the five-year period with 16.8%; 10th for the three-year period with 9.3%; fourth for the year with 18.5%; and fifth for the quarter with 5%.

See **Fall short** *on page 23*

Growth

Continued from page 16

burger chain in the Midwest, and certain areas within medical care such as outpatient surgery centers.

The year's No. 2 performer in the PIPER + universe was Criterion Investment Management Co., Houston, also a growth manager, which reported a return of 42.09% for its equity only fund.

Top finishers over the longer term in the PIPER + universe included Frontier Capital Management, Boston, which posted a compound annualized 26.67% return on its small-cap fund for the five-year period, compared with the S&P 500's 20.34% and the Russell 2000's 12.9% return. The median fund in the PIPER + universe returned 18.93% for the five-year period. All performance figures for periods of more than one year are compound annualized.

Jundt/Capen Associates Inc., Minneapolis, also a growth manager, ranked second for the five years with 26.19% on its small-cap fund. The fund earned the highest return for the three-year period with 27.88%, as compared with the PIPER + median of 15.79%, the S&P Index's 17.3% and the Russell 2000's Index's 9.82%.

Frontier benefited from the spate of takeovers and restructurings that occurred in the 1980s. The $400 million fund invests in companies with an average revenue of $400 million and an average market capitalization of $200 million.

"Our approach combines both value and growth," said Tom Duncan, executive vice president at Frontier. "We did in 1988 benefit from a lot of takeovers," Mr. Duncan said. "We were looking at the same valuation criteria that LBO acquirers might be looking at."

Restructurings and spinoffs from which the firm has benefited include **Dekalb Corp.**, a conglomerate that restructured to divide its seed and energy operations, and **Westmark International Inc.**, a medical technology company that broke away from Squibb Corp.

For the 10-year period, top performers in the PIPER + universe were Nicholas-Applegate Capital Management's emerging growth fund, which posted an annualized 27.03%, and Wall Street Associates, which posted a 26.26% return on its small-cap growth equity fund.

Among bank and insurance company commingled funds, the year's top performers followed strategies similar to those used by the top performing PIPER + managers.

The PIPER funds also monitored certain industry sectors including healthcare cost containment, retail and cellular telephones.

The $31 million Equitable Capital portfolio invests in companies with a median market capitalization of $500 million to $600 million.

Targeting high-growth companies marked by change through the introduction of a new product or the creation of a new market, characterizes the fund's strategy, said Barry Feirstein, managing director.

Equitable's portfolio has a 10% weighting in biotechnology companies. "If one carefully selects his companies, the stocks are relatively cheap relative to their potential," he explained.

An additional 10% is invested in companies specializing in containing health care costs, including **Medco Containment Services Inc.**, a mail-order pharmaceutical concern that provides low-cost prescriptions for corporate and pension health plans.

Mr. Feirstein said other heavily weighted sectors include companies that specialize in power generating equipment to handle electricity shortages, with a 15%

See **Growth** *on page 26*

Fall short

Continued from page 20

"Very frankly, we just bought cheap bonds," said Billy Williams, principal and chief investment officer in long-duration portfolios. STW seeks undervalued, investment-grade securities and doesn't try to time interest rate shifts. Interest rate moves during the past decade, however, benefited managers who stayed long.

"It doesn't take a rocket scientist to do well if interest rates are falling and you're longer than the other managers," Mr. Williams said.

At year end, the long composite, which has about $2 billion in assets, was between 45% and 50% in Treasuries, with the balance divided among corporate, sovereign and supernational bonds. Average maturity was 19 years and average duration, 8.5 years.

The past year was not good for bonds rated below investment grade; three of the bottom five funds in the quarter and four of the bottom five for the year were high-yield funds.

Starbuck, Tisdale & Associates, Santa Barbara, Calif., had the best balanced/TAA performance in the quarter with 5.3%. In the quarter, its $20 million tax-exempt composite was 50% to 60% in equities, especially companies with steady growth in earnings and dividends; 20% to 25% in convertible bonds; and the remainder in intermediate-term Treasuries and cash. Those all were sectors that were favored in the quarter, said L. David Tisdale, president and chief investment officer.

Equity holdings include **Pacific Telesis Group**, **GTE Corp.**, **Johnson & Johnson** and **H.J. Heinz Co.**; convertible holdings include **Church & Dwight Co. Inc.**, **Evans & Sutherland Computer Corp.** and **Noxell Corp.**

The firm considers its strategy balanced, setting its asset allocation on a longer-term basis than tactical asset allocaters, Mr. Tisdale said.

Starbuck, Tisdale placed seventh for the year with 27.8% and eighth for the five-year period with 19.3%.

Oxford Capital Management Inc., Timonium, Md., topped the balanced/TAA universe for the three- and five-year periods, with compound annual returns of 24.8% and 28% respectively. It was fifth for the quarter with 3.9% and sixth for the year with 28.7%.

Like Starbuck, Tisdale, Oxford uses convertibles, but counts some in the stock category and some in the bond category, depending on which security they resemble more closely. Convertible holdings include **Compaq Computer Corp.** debentures; equity holdings include **Emerson Electric Co.** and **Kimberly-Clark Corp.** ■

PIPER + fixed-income funds
(periods ended Dec. 31)

	Quarter	1 yr.	3 yr.	5 yr.	10 yr.
Highest return	7.53%	20.60%	11.97%	17.78%	16.57%
First quartile	3.58	14.36	8.55	13.08	14.24
Median	3.20	12.30	8.07	12.15	12.83
Third quartile	2.21	10.09	7.50	10.84	12.11
Lowest return	– 6.37	– 5.07	3.02	8.39	10.50
SLH G/C	**3.61**	**14.22**	**7.93**	**12.00**	**12.24**

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Continued from page 17

Bessemer Trust (A), N.Y.	3.3
Deposit Guaranty Nat'l, Miss.	3.2
Equitable Capital (No. 1), N.Y.	3.2
First Security Nat'l (D), Ky.	3.1
NCNB Nat'l Bank, N.C.	3.1
Mercantile Bank Joplin (E), Mo.	3.1
Commerce Bank, Mo.	3.0
Firstier Bank Lincoln, Neb.	3.0
Nationwide Life, Ohio	3.0
First Interstate of Arizona	3.0
NBD Trust, Ill.	3.0
INB Nat'l Bank, Ind.	3.0
LaSalle Nat'l (Core), Ill.	2.9
Manufacturers Life (C), Ontario	2.9
Aetna Life, Conn.	2.8
S&P 500	**2.1**

1-year returns

	%
SLH Trust (Flex growth 7), Del.	51.1
Equitable Capital (No. 4), N.Y.	45.4
Chancellor (Select), N.Y.	44.7
Lincoln Nat'l (Select), Ind.	42.3
Princeton Bank, N.J.	41.8
State Street Bank (Matrix syn.)	41.0
Mark Twain Bank, Mo.	40.5
Bank of New York	39.3
Chancellor (Styleshift)	38.6
Chancellor (Growth)	38.1
First City Nat'l, Texas	37.4
Metropolitan Life (SA 40), N.Y.	37.4
Chancellor (Index plus)	37.2
First Variable Life, Ark.	37.1
U.S. Trust Co. of New York	37.0
First of America, Mich.	36.9
Connecticut Mutual	36.8
IDS Trust (Core growth), Minn.	36.8
First Kentucky Trust	36.8
John Hancock (Divers.), Mass.	36.5
First Bank Milwaukee	36.2
Aetna Life, Conn.	36.1
Northern Trust (Select), Ill.	36.1
Sun Bank, Fla.	35.7
First Wisconsin Asset (Growth A)	35.6
Bank One Wisconsin (Growth)	35.3
John Hancock (Concen.), Mass.	34.8
Chase-CMB (Spectrum), N.Y.	34.7
NCNB Nat'l Bank, N.C.	34.5
American Nat'l Chicago (Active)	34.3
Nationwide Life, Ohio	34.3
Union Nat'l Bank Ark. (Low p.e)	34.2
Mercantile Bank, Mo.	34.1
Deposit Guaranty Nat'l, Miss.	34.1
Equitable Capital (No. 1), N.Y.	34.0
First of America (Sm. cap. value)	34.0
Riggs Nat'l Bank, D.C.	33.9
Citizens Comm'l (Div. gro.), Mich.	33.3
Puget Sound Nat'l, Wash.	33.1
Chase-CMB (Stock & fut. index)	32.8
Firstier Bank Omaha, Neb.	32.7
Johnson County Bank, Kan.	32.7
Beverly Trust, Ill.	32.7
Meridian Invst., Pa.	32.7
South Carolina Nat'l	32.6
NCNB Texas (Growth)	32.6
First Trust, Colo.	32.5
Pacific Financial (Efficient), Calif.	32.4
Chancellor (Enhanced index)	32.3
Summit Trust, N.J.	32.1
Southeast Bank, Fla.	32.0
S&P 500	**31.6**

3-year returns

	%
United Capital, Colo.	25.6
State Street Bank (Matrix syn.)	22.5
Bank of New York	22.0
Equitable Capital (No. 4), N.Y.	22.0
IDS Trust (Core growth), Minn.	21.8
Chancellor (Select growth)	21.5
First Fidelity Bank (Disc.), N.J.	21.5
Sun Bank, Fla.	21.3
SLH Trust (Flex growth 7), Del.	21.2
Lincoln Nat'l (Select), Ind.	21.2
First Nat'l Amarillo, Texas	20.7
U.S. Trust Co. of New York	20.6
Crown Life (U.S. group), Ontario	20.5
John Hancock (Divers.), Mass.	20.3
Bank One, Indianapolis (L)	20.2
Connecticut Mutual	19.9
Capital Trust (I), Ore.	19.8
NCNB Nat'l Bank, N.C.	19.7
South Carolina Nat'l	19.3
Beverly Trust, Ill.	19.2
Meridian Invst., Pa.	19.2
Wellington Trust (Divers. growth)	19.2
Mark Twain Bank, Mo.	18.9
State Street Bank (CM02), Mass.	18.8
Chase-CMB (Spectrum), N.Y.	18.8
First Variable Life, Ark.	18.8
Bank One Wisconsin (Growth)	18.8
Chancellor (Styleshift)	18.7
Summit Trust, N.J.	18.7
MTrust (Growth), Texas	18.5
Chancellor (Enhanced index)	18.3
Chase-CMB (Stock & fut. index)	18.3
Employers Life Wausau (SA 1)	18.1
Union Nat'l Bank Ark. (Low p.e)	18.1
First Union Nat'l (Enhanced), N.C.	18.0
Aetna Life, Conn.	18.0
First Fidelity Bank, N.J.	18.0
U.S. Nat'l Bank, Texas	17.9
Bessemer Trust (A), N.Y.	17.9
Assoc. Bank Neenah, Wis.	17.8
Bessemer Trust, N.Y.	17.8
ASB Capital, D.C.	17.8
Equitable Capital (No. 1), N.Y.	17.7

Continued on page 30

4 1K

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Growth

Continued from page 23

to 20% weighting, and cellular telephones at 10%, because, "we believe the prices of cellular phones are going to keep declining" while their geographic penetration will grow.

Strong earnings dynamics have stood Chase Investors Management Corp. CMB's medium-capitalization fund in good stead for both the short and the long term, said Mike Schonberg, managing director of growth equities at Chase. The $164 million commingled fund had the second highest year-end performance in the PIPER universe, at 46.58%.

The fund, which invests in companies between $500 million and $2 billion in market capitalization, and averaging $750 million, also ranked second for the 10-year period ended Dec. 31, with a compound annualized 20.73%. The median PIPER fund returned 16.17% for the 10-year period, while the S&P posted 17.57% and the Russell 2000 returned 14.52%.

"The 10-year (performance) relates to the general philosophy that (by) investing in medium- and small-size companies, you have the opportunity to invest in above-average growth" which, over time, will lead to appreciation in the stock's value, Mr. Schonberg said.

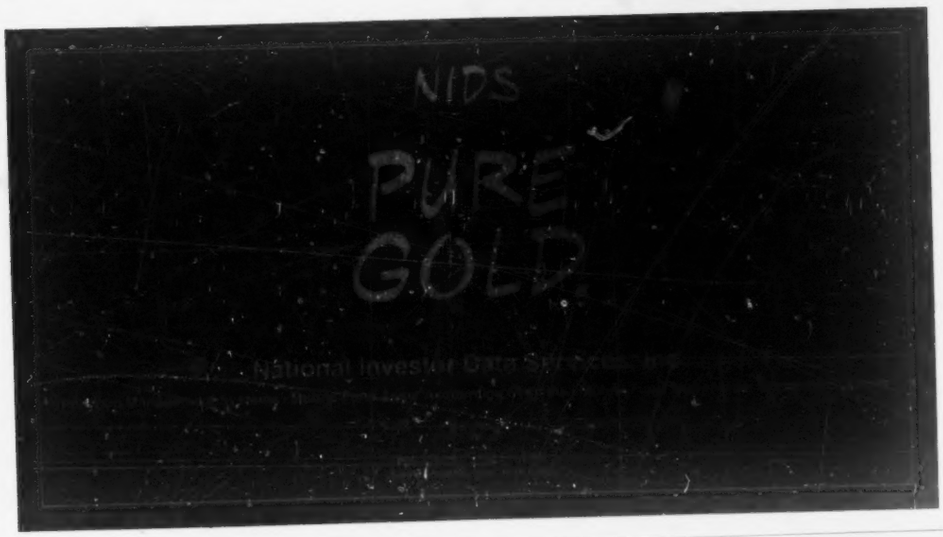
In the midsize sector, Mr. Schonberg said, "you find names that are overlooked." These companies include relatively small, successful operations that are still growing fast, and smaller niche players in bigger business areas.

The fund's biggest single stock holding, weighted at 6.5% at year-end, however, was **Kostco Wholesale Corp.**, which is a wholesale retail club. The fund bought Kostco in 1988 for 15 and by year-end 1989, it had risen to 35, Mr. Schonberg said.

Despite general concern over the retail industry, both Kostco and **Edison Brothers Stores Inc.**, another retail concern, have had strong earnings growth, Chase invested in Edison Brothers in early 1989 when the stock was priced in the mid to high 30s, and it since has soared to its current 63¾, Mr. Schonberg said.

Other Chase holdings include shares in **Tyson Foods Inc.**, the fund's seventh largest stake, and **Baroid Corp.**, an oil service company.

Over the longer term, MTrust Corp.'s growth fund was the leader for the 10 years, posting an annualized 20.78% vs. the S&P's 17.57% and the Russell 2000's 14.52%. The median PIPER fund returned 16.17%. ■



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Continued from page 26

Valley Nat'l (I), Ariz.	17.7
Chancellor (Index plus)	17.6
Chancellor (Growth)	17.6
Bankers Trust (Index), N.Y.	17.6
S&P 500	**17.3**

5-year returns

	%
Sun Bank, Fla.	28.4
Bank One Indianapolis (L)	25.4
Chancellor (Select growth)	24.9
State Street Bank (Matrix syn.)	24.7
SLH Trust (Flex growth 7), Del.	24.4
State Bank (C), Ohio	24.3
South Carolina Nat'l	24.0
IDS Trust (Core growth), Minn.	23.3
Bessemer Trust, N.Y.	22.7
First Nat'l Amarillo, Texas	22.7
Equitable Capital (No. 4), N.Y.	22.5
Assoc. Bank Neenah, Wis.	22.1
Bank One Wisconsin (Disc.)	21.9
Firstier Bank Omaha, Neb.	21.8
John Hancock (Divers.), Mass.	21.6
State Street Bank (CM02)	21.6
Capital Trust (I), Ore.	21.6
Puget Sound Nat'l, Wash.	21.6
Nationwide Life, Ohio	21.5
NCNB Nat'l Bank, N.C.	21.5
Bank of New York	21.3
Chancellor (Index plus)	21.3
IDS Trust (A), Minn.	21.3
Summit Trust, N.J.	21.2
Southtrust Bank, Ala.	21.2
American Nat'l Chicago (Active)	21.1
Chase-CMB (Stock & fut. index)	21.1
First Fidelity Bank, N.J.	21.1
First of America, Mich.	21.1
Harris Trust (Systematic), Ill.	20.9
Morgan Guaranty (Lg. co.), N.Y.	20.8
U.S. Trust Co. of New York	20.8
SLH Trust (Value 4), Del.	20.8
Barnett Banks, Fla.	20.8
U.S. Nat'l Bank, Texas	20.8
First Fidelity (Disc.), N.J.	20.6
United Capital, Colo.	20.6
Mellon Equity Assoc., Pa.	20.6
Bankers Trust (Index), N.Y.	20.6
Wellington Trust (Diver. growth)	20.6
Travelers (SA 500), Conn.	20.6
Meridian Invst., Pa.	20.6
S&P 500	**20.3**

10-year returns

	%
Sun Bank, Fla.	25.2
First Fidelity (Disc.), N.J.	21.2
Manufacturers Life, Ontario	21.2
First Nat'l Amarillo, Texas	20.6
First NH Invst. (A)	20.2
First Union Nat'l Bank, N.C.	20.1
United Capital, Colo.	20.1
U.S. Nat'l Bank, Texas	19.7
Equitable Capital (No. 4), N.Y.	19.7
Manufacturers Affil. (Growth)	19.6
Manufacturers Detroit	19.6
First Interstate of Oklahoma	19.5
Guardian Insurance (VA 1), N.Y.	19.4
Bessemer Trust, N.Y.	19.4
American Nat'l Chicago (Active)	19.4
Nationwide Life, Ohio	19.3
Connecticut Mutual	19.3
Union Labor Life (SA A), D.C.	19.3
State Street Bank (CM02)	19.2
Markston Invst., N.Y.	19.0
MTrust (Growth), Texas	18.9
MTrust (Value), Texas	18.9
Lake Shore Nat'l, Ill.	18.7
First Nat'l of Omaha (D), Neb.	18.6
Provident Capital, Pa.	18.6
First Variable Life, Ark.	18.6
Bank of New York	18.5
John Hancock (Divers.), Mass.	18.5
First of America, Mich.	18.5
Wheeling Dollar Bank, W. Va.	18.4
Massachusetts Mutual	18.4
Confederation Life, Ga.	18.4
S&P 500	**17.6**

Top two deciles PIPER commingled fixed-income funds

3-month returns

	%
Lincoln Nat'l (Long), Ind.	6.5
Mutual of New York (Priv. place)	5.4
Boatmen's Trust (F), Mo.	5.3
Prudential Rg. Asset (Long)	4.7
Mercantile Bank Joplin, Mo.	4.6
First Nat'l of Maryland	4.5
Equitable Capital (No. 5), N.Y.	4.4
NCNB Texas (Long)	4.3
First NH Invst. (B)	4.3
Riggs Nat'l Bank, D.C.	4.3
Key Trust Co. of the N.W., Wash.	4.2
Key Trust Co., N.Y.	4.2
Signet Trust (Inter.), Va.	4.2
CIGNA Corp. (Active), Conn.	4.2
New York Life Insurance (SA 4)	4.1
IDS Trust (A), Minn.	4.0
Mutual of New York (Inter.)	4.0
New York Life Insurance (SA 8)	4.0
LaSalle Nat'l (Long), Ill.	4.0
Bankers Trust (Mtg. pass), N.Y.	4.0
Pacific Financial, Calif.	4.0
Bank of New York	4.0
Bessemer Trust, N.Y.	4.0
The Phoenix, Conn.	3.9
Chase-CMB (Sec. mtg.), N.Y.	3.9
First Asset Mgmt. (II), Minn.	3.9
First City Nat'l, Texas	3.9
Chase-CMB (Long), N.Y.	3.9
Princeton Bank, N.J.	3.8
Aetna Life (SA 76), Conn.	3.8
Manufacturers Detroit	3.8
Citizens Fidelity (F), Ky.	3.8
Manufacturers Affil. Trust	3.8
Transamerica Life (SA T-2), Calif.	3.8
First Wisconsin Trust	3.8
CoreStates Invst., Pa.	3.8
Comerica, Mich.	3.8
Dominion Trust (Rel. value), Va.	3.8
Fidelity Bank, Pa.	3.8
Liberty Nat'l, Ky.	3.8
Chase-CMB (Index), N.Y.	3.8
First Wisconsin Trust (Index)	3.8
Central Fidelity Bank, Va.	3.8
LaSalle Nat'l (Inter.), Ill.	3.8
ASB Capital, D.C.	3.8
Travelers (SA P), Conn.	3.8
Prudential Rg. Asset (BMI)	3.8
Shawmut Bank, Mass.	3.8
Sun Bank, Fla.	3.7
Dauphin Deposit (Corp.), Pa.	3.7
Sanwa Bank (C), Calif.	3.7
SLH G C	**3.6**

1-year returns

	%
Lincoln Nat'l (Long), Ind.	24.7
Mercantile Bank Joplin, Mo.	20.5
Boatmen's Trust (F), Mo.	19.9
Prudential Rg. Asset (Long), N.J.	19.3
Equitable Capital (No. 5), N.Y.	18.2
Jefferson Trust, Ill.	16.7
Transamerica Life (SA T-2), Calif.	16.7
Chase-CMB (Long), N.Y.	16.4
NCNB Texas (Long)	16.1
Bessemer Trust, N.Y.	15.8
Sunburst Bank, Miss.	15.6
Bank of New York	15.6
First Nat'l of Amarillo, Texas	15.5
First Variable Life (H.Q.), Ark.	15.4
CoreStates Invst., Pa.	15.3
Chase-CMB (Index), N.Y.	15.3
CIGNA Corp. (Active) Conn.	15.3
U.S. Trust Co. of New York	15.2
First Nat'l of Maryland	15.2
Riggs Nat'l Bank, D.C.	15.2
Harris Trust, Ill.	15.2
Connecticut Mutual (Convert.)	15.1
Bankers Trust (Mtg. pass), N.Y.	15.0
Meridian-Delaware Trust	15.0
Manufacturers Detroit	15.0
Manufacturers Affil. Trust	14.9
First Wisconsin Trust (Index)	14.9
Mellon Bond, Pa.	14.9
Comerica, Mich.	14.9
Texas Commerce (Active)	14.8
General American (SA 9), Mo.	14.8
Bank of New York	14.8
Key Trust, N.Y.	14.7
Prudential Rg. Asset (BMI)	14.7
IDS Trust (A), Minn.	14.7
Wellington Trust (Enhanced)	14.7
The Principal, Iowa	14.7
Sun Bank, Fla.	14.7
Midlantic, N.J.	14.6
First Nat'l of Omaha (C), Neb.	14.6
First Wachovia, N.C.	14.6
New York Life (SA 8)	14.6
Fidelity Bank, Pa.	14.6
Barnett Bank, Fla.	14.6
First Asset Mgmt. (II), Minn.	14.5
BancOklahoma Trust	14.5
Bank of New England, Mass.	14.5
SLH Trust (Dir. 5), Del.	14.5
Liberty Nat'l, Ky.	14.5
ASB Capital Mgmt., D.C.	14.5
Firstier Bank Omaha, Neb.	14.4
SLH G C	**14.2**

3-year returns

	%
First Variable Life, Ark.	12.7
Connecticut Mutual (High yield)	11.1

Continued on page 33

Equitable Capital (No. 5), N.Y.	10.9
Beverly Trust, Ill.	10.7
Union Labor Life (GIC), D.C.	10.4
General American (SA 9), Mo.	10.3
Transamerica Life (SA T-2), Calif.	10.2
General American (SA 6), Mo.	10.2
Mutual of New York (Priv. place),	9.9
Pacific Financial, Calif.	9.7
Union Labor Life (Accum.), D.C.	9.6
Crestar Bank (Roanoke), Va.	9.6
Meridian-Delaware Trust	9.5
Jefferson Trust, Ill.	9.5
Sanwa Bank (C), Calif.	9.4
Trustmark Nat'l, Miss.	9.4
First Alabama Bank	9.3
First Nat'l of Amarillo, Texas	9.3
Wheeling Dollar Bank, W. Va.	9.3
Harris Trust, Ill.	9.2
First Nat'l of Maryland	9.2
Prudential Rg. Asset (Provest)	9.2
IDS Trust (GIC), Minn.	9.2
The Principal, Iowa	9.1
Capital Trust (GIC), Ore.	9.1
Marine Midland, N.Y.	9.1
Midlantic, N.J.	9.0
First Kentucky Trust	9.0
Mercantile Safe, Md.	9.0
Exchange Nat'l Bank, Ill.	9.0
Bankers Trust (Mtg. pass), N.Y.	9.0
Dominion Trust (Stable cap.), Va.	9.0
Sovran Capital, Va.	8.9
Summit Trust, N.J.	8.9
Morgan Guaranty, N.Y.	8.9
Cullen Bank, Texas	8.9
U.S. Trust Co. of New York	8.8
Travelers Cos. (SA D), Conn.	8.7
CoreStates Invst., Pa.	8.7
Society Nat'l, Ohio	8.7
Boatmen's Trust (F), Mo.	8.7
IAA Trust (B), Ill.	8.7
Signet Trust (Stable value), Va.	8.7
Prudential Rg. Asset (Long)	8.6
Second Nat'l Bank, Ohio	8.6
Trust Co. West (High yield)	8.6
Chase-CMB (Index), N.Y.	8.6
Central Fidelity, Va.	8.6
Signet Trust (Inter.), Va.	8.5
SLH G C	**7.9**

5-year returns

	%
Boatmen's Trust (F), Mo.	16.0
Equitable Capital (No. 5), N.Y.	15.6
First Variable Life, Ark.	15.5
Meridian-Delaware Trust	15.5
Transamerica Life (SA T-2), Calif.	15.4
United Capital, Colo.	15.2
Sunburst Bank, Miss.	14.9
Union Labor Life (SA B), D.C.	14.2
Beverly Trust, Ill.	14.2
Connecticut Nat'l Bank	13.9
The Principal, Iowa	13.7
LaSalle Nat'l (Long), Ill.	13.6
First Nat'l of Amarillo, Texas	13.6
General American (SA 9), Mo.	13.6
NCNB Texas (Long)	13.5
IAA Trust (B), Ill.	13.4
Pacific Financial, Calif.	13.4
Fidelity Bank, Pa.	13.4
Bankers Trust (Mtg. pass), N.Y.	13.4
Travelers Cos. (SA P), Conn.	13.2
ASB Capital, D.C.	13.2
First Kentucky Trust	13.2
Crestar Bank (Roanoke), Va.	13.2
Morgan Guaranty, N.Y.	13.2
Crown Life (U.S.), Ontario	13.2
Metropolitan Life (SA 41), N.Y.	13.2
John Hancock (1D), Mass.	13.1
Harris Trust, Ill.	13.1
Sanwa Bank (C), Calif.	13.1
First Interstate of Arizona	13.1
Sovran Capital, Va.	13.0
Society Nat'l, Ohio	13.0
AmSouth, Ala.	12.9
CIGNA Corp. (Active), Conn.	12.9
First Variable Life (H.Q.), Ark.	12.8
First Wachovia, N.C.	12.8
Manufacturers Life (B), Ontario	12.8
Comerica, Mich.	12.8
Connecticut Nat'l Bank (Inter.)	12.8
CoreStat. Invst., Pa.	12.7
Bessemer Trust, N.Y.	12.7
Prudential Rg. Asset (Provest)	12.7
IDS Trust (A), Minn.	12.7
Life of Virginia	12.7
Johnson County Bank, Kan.	12.7
SLH G C	**12.0**

10-year returns

	%
First Variable Life, Ark.	15.4
Boatmen's Trust (F), Mo.	14.6
Beverly Trust, Ill.	14.3
Sovran Capital, Va.	14.2
United Capital, Colo.	14.0
Union Labor Life (SA B), D.C.	13.9
Life of Virginia	13.8
Pacific Financial, Calif.	13.5
First Kentucky Trust	13.5
ASB Capital, D.C.	13.4
Sanwa Bank (C), Calif.	13.3
Bankers Trust (Mtg. pass), N.Y.	13.2
IAA Trust (B), Ill.	13.2
First Nat'l of Amarillo, Texas	13.1
SeaFirst Bank, Wash.	13.1
Morgan Guaranty, N.Y.	13.0
Connecticut Nat'l Bank	13.0
First Interstate of Arizona	13.0
Bankers Trust (A), N.Y.	12.8
Central Fidelity Bank, Va.	12.8
Society Nat'l, Ohio	12.8
Prudential Rg. Asset (Provest)	12.8
Texas Commerce (Active)	12.7
Cullen Bank, Texas	12.7
Fidelity Bank, Pa.	12.7
John Hancock (1D), Mass.	12.7
Crestar Bank (Roanoke), Va.	12.7
First Nat'l of Maryland	12.6
First Wachovia, N.C.	12.6
Mercantile Bank, Mo.	12.6
CIGNA Corp. (Inter.), Conn.	12.6
Bank of New England, Mass.	12.6
SLH G C	**12.2**

Commingled international funds

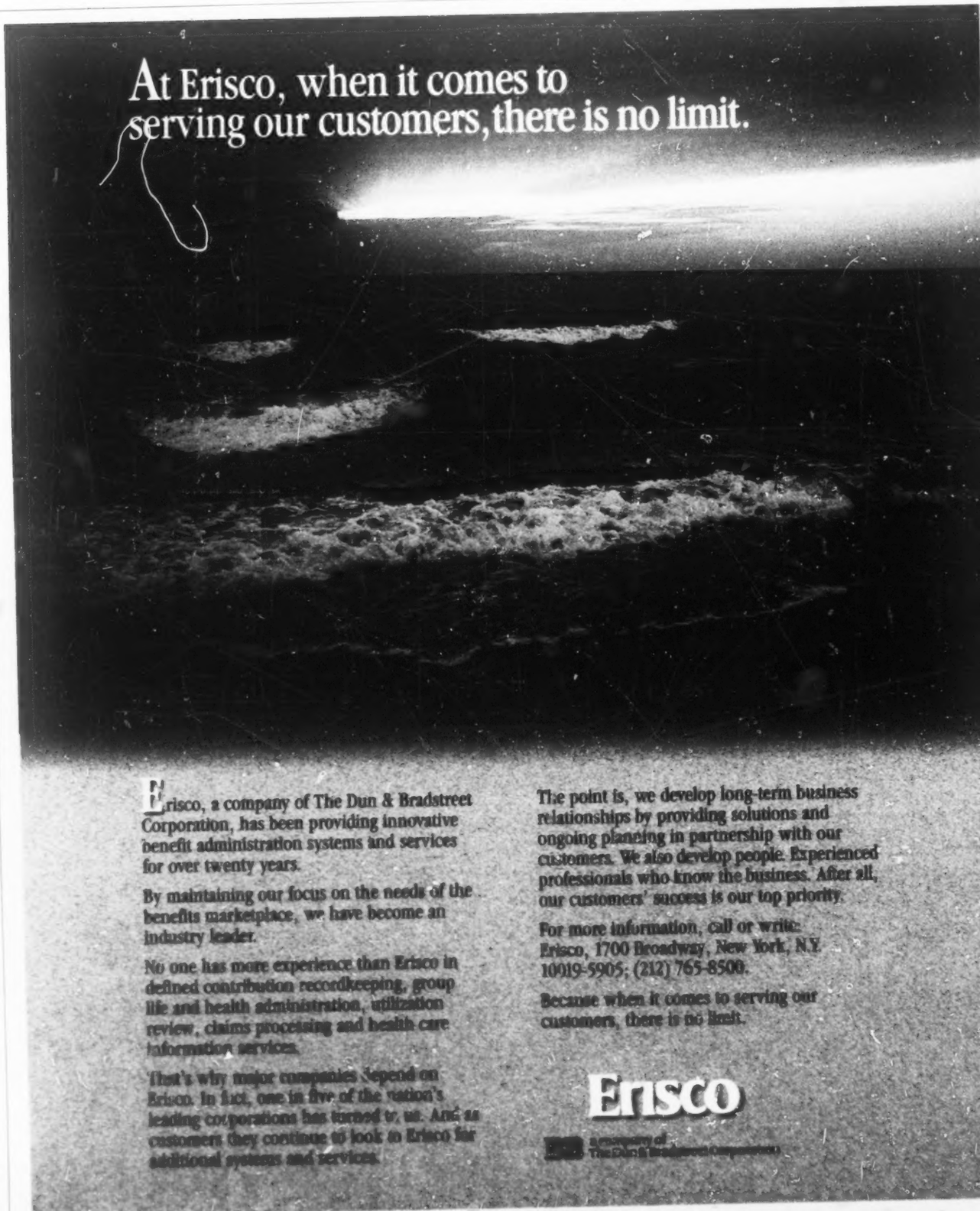
3-month returns

	%
CIGNA Corp. (Eq.), Conn.	13.2
IDS Trust (Eq.), Minn.	11.5
Chase-CMB (Eq.), N.Y.	7.7
Travelers Cos. (SA W), Conn.	7.2
Bankers Trust (Eq.), N.Y.	6.8
Putnam Cos. (Eq.), Mass.	6.6
Fidelity Mgmt. (Overseas eq.)	6.4
NCNB Texas (Stock)	6.4
Wellington Trust (Stock), Mass.	6.2
Morgan Guaranty (Bond), N.Y.	6.2
Morgan Guaranty (Eq.), N.Y.	6.0
PCM Int'l (Global bond), N.J.	6.0
MTrust (Eq.), Texas	5.9
IAA Trust (CTF-I)	5.8
Bessemer Trust, N.Y.	5.4
The Principal (Stock), Iowa	5.2
Wilmington Trust (Eq.), Del.	5.1
American Nat'l Chicago (Eq.)	5.0
Marine Midland (Eq.), N.Y.	5.0
Confederation Life (Stock), Ga.	4.9
Bankers Trust (EAFE index), N.Y.	4.8
FTA Europe & Pacific Index	**4.8**
U.S. Trust, N.Y.	4.7
Wells Fargo (Eq.), Calif.	4.7
MSCI EAFE Index	**4.6**
Travelers Cos. (TIIF), Conn.	4.6
Connecticut Mutual (Overseas)	4.4
PCM Int'l (Global yield), N.J.	4.4
Prudential (Foreign stock), N.J.	4.3
Chase-CMB (EAFE index)	4.3
FTA World Index	**3.9**
MSCI World Index	**3.8**
State Street Bank (Index)	3.7
Chase-CMB (Fixed), N.Y.	3.7
PCM Int'l (Print eq.), N.J.	3.6
MTrust (Bond), Texas	3.0
Trust Co. West (Global)	3.0
WorldInvest (Fixed), N.Y.	2.9
PCM Int'l (Foreign bond), N.J.	2.8
Harris Trust (Eq.), Ill.	2.7
Wellington Trust (Emerg. stock)	2.5
Lincoln Nat'l (SA 22), Ind.	2.4
Assoc. Bank Neenah (World), Wis.	2.0
Wellington Trust (Pacific Basin)	1.2
WorldInvest (Eq.), N.Y.	0.6

1-year returns

	%
Wellington Trust (Emerg. stock)	30.0
CIGNA Corp. (Eq.), Conn.	29.3
Wilmington Trust (Eq.), Del.	29.1
Trust Co. West (Global)	28.4
Confederation Life (Stock), Ga.	28.1
Bankers Trust (Eq.), N.Y.	27.6
Assoc. Bank Neenah (World)	27.3
Putnam Cos. (Eq.), Mass.	26.6
Bessemer Trust, N.Y.	26.6
U.S. Trust, N.Y.	25.6

Continued on page 32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FTA World Index	17.7
MSCI World Index	17.2
FTA Europe & Pacific Index	10.8
MSCI EAFE Index	10.8

Wilgenhof (Foreign stock), N.J.	10.6
American Nat'l (Chicago) (Eq.)	10.6
Wells Fargo (Eq.), Calif.	10.5
State Street Bank (Index)	9.8
Chase-CMB (EAFE index), N.Y.	9.5
Wellington Trust (Pacific Basin)	9.2
PCM Int'l (Global yield), N.J.	6.4
Worldinvest (Fixed), N.Y.	3.9
Morgan Guaranty (Bond), N.Y.	1.1
MTrust (Bond), Texas	0.9
PCM Int'l (Foreign bond), N.J.	2.3
Chase-CMB (Fixed), N.Y.	3.0

3-year returns

	%
Bankers Trust (Eq.), N.Y.	24.0
Confederation Life (Stock), Ga.	22.9
Wells Fargo (Eq.), Calif.	21.8
FTA Europe & Pacific Index	**21.8**
MSCI EAFE Index	**21.2**
CIGNA Corp. (Eq.), Conn.	21.1
Prudential (Foreign stock), N.J.	21.0
American Nat'l (Chicago) (Eq.)	20.8
Chase-CMB (EAFE index), N.Y.	20.6
State Street Bank (Index)	20.6
FTA World Index	**19.8**
MSCI World Index	**19.3**
Wellington Trust (Pacific Basin)	19.0
Bessemer Trust, N.Y.	18.1
PCM Int'l (Global bond), N.J.	17.3
Assoc. Bank Neenah (World)	16.6
Wellington Trust (Emerg. stock)	16.6
Chase-CMB (Eq.), N.Y.	16.3
Putnam Cos. (Eq.), Mass.	16.2
NCNB Texas (Stock)	16.2
U.S. Trust, N.Y.	16.1
Travelers Cos. (SA W), Conn.	15.9
Fidelity Mgmt. (Overseas eq.)	15.6
PCM Int'l (Print eq.), N.J.	14.5
Wellington Trust (Stock), Mass.	14.4
Worldinvest (Eq.), N.Y.	13.9
Morgan Guaranty (Eq.), N.Y.	13.8
Marine Midland (Eq.), N.Y.	13.8
Lincoln Nat'l (SA 22), Ind.	13.5
PCM Int'l (Global yield), N.J.	12.9
Chase-CMB (Fixed), N.Y.	12.9
Worldinvest (Fixed), N.Y.	12.7
IDS Trust (Eq.), Minn.	12.6
PCM Int'l (Foreign bond), N.J.	12.3
Morgan Guaranty (Bond), N.Y.	11.7
Connecticut Mutual (Overseas)	11.0

5-year returns

	%
Chase-CMB (EAFE index), N.Y.	36.8
FTA Europe & Pacific Index	**36.6**
MSCI EAFE Index	**36.5**
American Nat'l Chicago (Eq.)	36.5
Worldinvest (Eq.), N.Y.	36.3
Fidelity Mgmt. (Overseas eq.)	36.1
Bankers Trust (Eq.), N.Y.	35.9
Wells Fargo (Eq.), Calif.	35.7
Bessemer Trust, N.Y.	35.0
CIGNA Corp. (Eq.), Conn.	34.3
Chase-CMB (Eq.), N.Y.	33.0
Putnam Cos. (Eq.), Mass.	31.7
Wellington Trust (Pacific Basin)	31.6
Marine Midland (Eq.), N.Y.	31.2
U.S. Trust, N.Y.	30.1
NCNB Texas (Stock)	30.0
Wellington Trust (Stock), Mass.	29.9
Morgan Guaranty (Eq.), N.Y.	29.2
IDS Trust (Eq.), Minn.	28.9

FTA World Index	28.2
MSCI World	28.0

Continued on page 33

Top PIPER equity funds by size

1-year returns

Over $100 million

	%
Equitable Capital (No. 4), N.Y.	45.4
Chancellor (Growth)	38.1
Metropolitan Life (SA 40), N.Y.	37.4
First of America, Mich.	36.9
John Hancock (Divers.), Mass.	36.5
Aetna Life, Conn.	36.1
Northern Trust (Select), Ill.	36.1
Sun Bank, Fla.	35.7
John Hancock (Conc.), Mass.	34.8
NCNB Nat'l, N.C.	34.5

$50 million to $100 million

	%
Lincoln Nat'l (Select), Ind.	42.3
State Street (Matrix syn.)	41.0
Chancellor (Styleshift), N.Y.	38.6
Chancellor (Index plus), N.Y.	37.2
First Wisconsin (Growth A)	35.6
Chase-CMB (Spectrum), N.Y.	34.7
Deposit Guaranty Nat'l, Miss.	34.1
First America (Sm. cap. value)	34.0
NCNB Texas (Growth)	32.6
Pacific Financial (Efficient)	32.4

$10 million to $50 million

	%
Chancellor (Select growth)	44.7
Princeton Bank, N.J.	41.8
Bank of New York	39.3
First City Nat'l, Texas	37.4
First Variable Life, Ark.	37.1
Connecticut Mutual	36.8
First Kentucky Trust	36.8
First Bank Milwaukee	36.2
Bank One Wisconsin (Growth)	35.3
Nationwide Life, Ohio	34.3

Under $10 million

	%
SLH Trust (Flex growth 7), Del.	51.1
IDS Trust (Core growth), Minn.	36.8
Union Nat'l (Low p/e), Ark.	34.2
Puget Sound, Wash.	33.1
Johnson County Bank, Kan.	32.7
Crestar Bank (Roanoke), Va.	31.9
Northern States, Ill.	31.8
Manufacturers Life (C), Ontario	31.1
Minnesota Mutual (Index)	30.6
Great West (VAAA), Manitoba	29.8

10-year returns

Over $100 million

	%
Sun Bank, Fla.	25.2
Manufacturers Life, Ontario	21.2
First Union Nat'l, N.C.	20.1
Equitable Capital (No. 4), N.Y.	19.7
Manufacturers Affil. (Growth)	19.6
Manufacturers Detroit	19.6
American Nat'l Chicago (Act.)	19.4
Union Labor Life (SA A), D.C.	19.3
Markston Invst., N.Y.	19.0
MTrust (Growth), Texas	18.9

$50 million to $100 million

	%
U.S. Nat'l Bank, Texas	19.7
MTrust (Value), Texas	18.9
First Wisconsin (Income)	18.1
First Fidelity Bank, N.J.	18.0
C&S Trust, Fla.	17.9
AmSouth, Ala.	17.9
Chase-CMB (Spectrum), N.Y.	17.7
Chancellor (Index plus), N.Y.	17.5
First Wisconsin (Growth A)	17.3
Crestar Bank (5822), Va.	17.1

$10 million to $50 million

	%
First Fidelity (Disc.), N.J.	21.2
First Nat'l Amarillo, Texas	20.6
United Capital, Colo.	20.1
First Interstate of Oklahoma	19.5
Guardian Ins. (VA 1), N.Y.	19.4
Nationwide Life, Ohio	19.3
Connecticut Mutual	19.3
State Street Bank (CM02)	19.2
Lake Shore Nat'l, Ill.	18.7
First Nat'l of Omaha (D), Neb.	18.6

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Top PIPER fixed-income funds by size

1-year returns

Over $100 million

	%
Boatmen's Trust (F), Mo.	19.9
Equitable Capital (No. 5), N.Y.	18.2
Transamerica (SA T-2), Calif.	16.7
Chase-CMB (Long), N.Y.	16.4
CIGNA Corp. (Active), Conn.	15.3
Harris Trust, Ill.	15.2
Bankers Trust (Mtg. pass)	15.0
Manufacturers Detroit	15.0
Manufacturers Affil. Trust	14.9
Mellon Bond, Pa.	14.9

$50 million to $100 million

	%
Prudential Rg. Asset (Long)	19.3
CoreStates Invst., Pa.	15.3
Bank of New York	14.8
Midlantic, N.J.	14.6
Barnett Bank, Fla.	14.6
Liberty Nat'l, Ky.	14.5
Chemical Bank (2), N.Y.	14.3
First Tennessee Invst.	14.1
Travelers Cos. (SA D), Conn.	14.1
Travelers Cos. (Index), Conn.	14.0

$10 million to $50 million

	%
Lincoln Nat'l (Long), Ind.	24.7
Jefferson Trust, Ill.	16.7
NCNB Texas (Long)	16.1
Bessemer Trust, N.Y.	15.8
Chase-CMB (Index), N.Y.	15.3
First Nat'l of Maryland	15.2
Riggs Nat'l Bank, D.C.	15.2
Meridian, Del.	15.0
First Wisconsin Trust (Index)	14.9
General American (SA 9), Mo.	14.8

Under $10 million

	%
Mercantile Bank Joplin, Mo.	20.5
Sunburst Bank, Miss.	15.6
First Variable (H.Q.), Ark.	15.4
IDS Trust (A), Minn.	14.7
LaSalle Nat'l (Long), Ill.	14.3
Crestar Bank (Roanoke), Va.	14.2
First NH Invst. (B)	14.2
Connecticut Nat'l	13.8
Key Trust Co. of N.W.	13.5
First Variable Life, Ark.	13.5

10-year returns

Over $100 million

	%
Boatmen's Trust (F), Mo.	14.6
Sovran Capital, Va.	14.2
Pacific Financial, Calif.	13.5
First Kentucky Trust	13.5
ASB Capital, D.C.	13.4
Bankers Trust (Mtg. pass)	13.2
Morgan Guaranty, N.Y.	13.0
Prudential Rg./Asset (Privest)	12.8
Texas Commerce (Active)	12.7
Fidelity Bank, Pa.	12.7

$50 million to $100 million

	%
United Capital, Colo.	14.0
Life of Virginia	13.8
Bankers Trust (A), N.Y.	12.8
Marine Midland, N.Y.	12.3
Travelers Cos. (D), Conn.	12.2
Bankers Trust (B), N.Y.	12.1
CoreStates Invst., Pa.	12.0
Chancellor (Inter.), N.Y.	12.0
C&S Trust, Fla.	11.9
Massachusetts Mutual	11.9

$10 million to $50 million

	%
Beverly Trust, Ill.	14.3
Sanwa Bank (C), Calif.	13.3
IAA Trust (B), Ill.	13.2
First Interstate of Arizona	13.0
Central Fidelity, Va.	12.8
Society Nat'l, Ohio	12.8
Cullen Bank, Texas	12.7
First Nat'l of Maryland	12.6
Key Trust, N.Y.	12.6
MONY (Priv. place)	12.5

Under $10 million

	%
First Variable Life, Ark.	15.4
Connecticut Nat'l	13.0
Crestar Bank (Roanoke), Va.	12.7
Second Nat'l Bank, Ohio	12.4
Oregon Bank	11.8
Sunburst, Miss.	11.6
Valley Nat'l (II), Ariz.	11.6
First Variable Life (H.Q.), Ark.	11.5
First Trust, Colo.	11.4
First NH Invst. (B)	11.4

(Continued from page 32)

Travelers Cos. (SA W), Conn.	27.2
PCM Int'l (Global bond), N.J.	26.1
WorldInvest (Fixed), N.Y.	22.6
Chase-CMB (Fixed), N.Y.	21.7
PCM Int'l (Foreign bond), N.J.	21.4
Morgan Guaranty (Bond), N.Y.	19.1

10-year returns

MSCI EAFE Index	**22.8**
U.S. Trust, N.Y.	22.2
American Nat'l Chicago (Eq.)	22.1
Putnam Cos. (Eq.), Mass.	20.9
MSCI World Index	**19.9**
Morgan Guaranty (Eq.), N.Y.	18.7
Morgan Guaranty (Bond), N.Y.	12.3

Top two deciles PIPER special equity funds

3-month returns

Equitable Capital (Growth)	2.6
Princeton Bank (Emerg. gro.), N.J.	5.9
Crestar Bank, Va.	4.9
Chancellor (Emerg. health care)	4.3
First Asset Mgmt. (II), Minn.	3.9
Markston Invst. (VA 15), N.Y.	3.4
First Wisconsin (Growth B)	3.0
The Phoenix (Growth S), Conn.	2.5
Associated Kellogg (Growth), Wis.	2.3
SLH Trust (Growth 2), Del.	2.1
S&P 500	**2.1**
Trust Co. West, Calif.	2.0
Planters Nat'l (Carolinas), N.C.	1.8
Connecticut Nat'l Bank (Sup.)	1.4
Texas Commerce	1.4
Equitable Capital (Tangible asset)	0.9
Comerica, Mich.	0.6
Russell 2000	**5.0**

1-year returns

Equitable Capital (Growth)	47.7
Chase-CMB (Med. cap.), N.Y.	46.6
Trust Co. West, Calif.	41.7
Chancellor (Emerg. health care)	40.0
First Wisconsin (Growth B)	38.5
Princeton Bank (Emerg. gro.), N.J.	37.8
IDS Trust (Emerg. gro. F), Minn.	37.7
The Phoenix (Growth S), Conn.	36.7
Putnam Cos. (Growth), Mass.	36.5
Equitable Bank, Md.	36.5
Meridian Invst. (Quest), Pa.	36.1
Lincoln Nat'l (Opp.), Ind.	35.5
SeaFirst Bank (Northwest), Wash.	35.4
MTrust (Growth), Texas	34.9
Mutual of New York	34.6
S&P 500	**31.6**
Russell 2000	**16.2**

3-year returns

NCNB Texas	33.9
First City Nat'l (G.), Texas	28.2
Wellington Trust (Spec. sit.)	25.0
Connecticut Nat'l Bank (Sup.)	23.9
Mutual of New York	22.2
Equitable Capital (Tangible asset)	21.9
First Asset Mgmt. (II), Minn.	21.4
The Phoenix (Growth S), Conn.	20.7
Putnam Cos. (Growth), Mass.	20.4
Connecticut Bank	19.7
Meridian Invst. (Quest)	19.5
SLH Trust (Small cap S), Del.	19.4
Markston Invst. (VA 15), N.Y.	18.8
Deposit Guaranty (Opp.), Miss.	18.
S&P 500	**17.3**
Russell 2000	**9.8**

(Continued on page 34)

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PIPER fixed-income funds
(periods ended Dec. 31)

	Quarter	1 yr.	3 yr.	5 yr.	10 yr.
Highest return	6.48%	24.73%	12.69%	16.00%	15.36%
First quartile	3.62	14.19	8.34	12.35	12.36
Median	3.33	13.01	7.83	11.39	11.62
Third quartile	2.92	11.72	7.34	10.28	11.11
Lowest return	2.01	1.97	4.71	4.53	7.97
SLH G C	3.61	14.22	7.93	12.00	12.24

Realty

Continued from page 17

open-end funds — Metropolitan's $93 million Real Estate Fund, with a 10.06% return, and Prudential Real Estate Investors' $4.3 billion PRISA I fund, with 9.45%, scored above the real estate median open-end commingled fund return of 9.39% for the 12 months ended Sept. 30.

The large insurance company open-end commingled funds generally invest in some of the largest, high-quality properties in particular areas.

According to some insurance company executives, it may be that strategy that is giving them an edge over many of the more specialized funds in a real estate market where there is high vacancy in the office sector and some over-building in small retail properties.

The Equitable Prime Property Fund has 76 office buildings, of which 84% are high rises and 75% are in downtown central business districts, said Harry D. Pefanis, senior executive vice president in Equitable's New York office.

It is critical that most of the office buildings in the portfolio are in the central business districts, he said, because it is in the suburban markets where there are serious problems, including some foreclosures, on office buildings.

The Prime Property Fund also owns 28 large regional malls among the highest performing real estate in the past five years and eight of the malls are being renovated or expanded to maintain retail dominance in their markets.

For the year ended Sept. 30, however, two specialized funds did better than any of the broad-based funds. The John Hancock Timber Resources Group, Boston, earned a 43.57% return and Los Angeles-based Sanwa Bank's Real Estate Fund F had a 20.08% return.

The performance figure for Hancock Timber, however, is mainly the return for three separate accounts, although it includes one smaller commingled fund, with total assets of $6m million for the four funds.

The Hancock commingled fund had the lower performance, 21%, relative to the separate accounts, for the period.

The high return for the commingled investments in timber came mostly from appreciation, including growth of the actual trees, and is not likely to be repeated every year, according to Rick Smith, director of client relations with John Hancock Timber Resources.

The Sanwa fund has only $4 million in net assets and owns one property, an office building north of San Diego.

Following Metropolitan's Tower Fund was Star Bank, Cincinnati, whose Personal Trust Fund returned 13.13% for the 12 months. The fund is not an employee benefit fund.

The fifth highest return, 12.98%, also came from a Star Bank fund, the $7 million Employee Benefit Real Estate fund. It is a real estate investment trust that invests in real estate securities, said Keith Lee, vice president and director of research for Star Bank.

Another open-end specialty fund that did well for the year was Prudential's $120 million Union Mortgage Account with a 12.08% return. It invests in the fixed mortgages of buildings built with union labor.

Prudential's $817 million PRISA II also got high performance for the year with a 11.59% return.

It invests in high-quality, large properties, but it isn't as diversified as PRISA I, according to Wes Lockwood, a vice president with Prudential, Newark, N.J.

Among closed-end funds, the highest performance for the year ended Sept. 30 came from Chicago-based JMB Institutional Realty Corp.'s Group Trust II with an investment return of 18.31%. It was followed by JMB's Group Trust I with 14.28%.

Both funds have more than $400 million in net assets each, and are perennial top performing funds for the three- and five-year periods, also.

Each is heavily invested in retail malls, but include large office buildings as well.

For the one-year period, the third best performing closed-end fund was Los Angeles-based TCW Realty Advisors' Fund III, with $220 million in net assets. Almost one-half of its assets, 46%, are in high-performing industrial properties, helping the fund to reach its 13.68% return.

Next came Fund II of LaSalle Advisors Ltd., Chicago, with a 13.55% return. The fund, with $383 million in net assets, has about 76% of its assets in large office buildings, mostly in downtown central business districts.

Lehndorff & Babson Real Estate Counsel, Dallas, Property Fund I came in fifth for the year at 12.98%.

The $50 million fund has about 50% of its assets invested in retail properties.

The closed-end fund median return for the year was 7.85%.

U.S. developers have the edge

Continued from page 17

5-year returns

NCNB Texas	34.2
SLH Trust (Growth 2) De	31.2
SLH Trust (New values 3) De	30.6
Connecticut Nat. Bank (Sub.)	24.5
Assoc. Bank Neenah (Reg.) Wis.	24.3
Chase-CMB (Med. cap.) N.Y.	24.1
Putnam Cos. (Growth) Mass.	23.5
Assoc. Bank Neenah (Inc.) Wis.	22.8
Meridian Invst. (Quest) Pa.	22.2
Equitable Capital (Tangible asset)	22.1
Trust Co. West. Calif.	21.7
SLH Trust (Small cap. 5) De.	21.1
S&P 500	20.3
Russell 2000	12.9

10-year returns

MTrust (Growth) Texas	20.8
Chase-CMB (Med. cap.)	20.7
Provident Capital Pa.	20.1
First Wisconsin (Growth B)	19.4
First Asset Mgmt. (B) Minn.	19.4
Chancellor (Value) N.Y.	19.2
S&P 500	17.6
Russell 2000	14.5

PHILADELPHIA — American developers going to Europe will have several advantages over European developers, according to James D. Noteware, national real estate director for Laventhol & Horwath, a real estate consulting and accounting firm.

Many American corporations in Europe would prefer to deal with Americans, and are frustrated by the European slowness and inflexibility of documentation, currency translation and tax problems, said Mr. Noteware.

Also, he said, American developers are willing to take risks, while European developers often build only in tight markets after someone else has obtained permission to build.

While European builders think in small-scale projects — such as 100,000-square-foot office buildings — Americans build larger projects, which Americans in Europe want and need.

Another advantage for Americans is that European financing of real estate is very simplistic and localized. The European real estate capital markets are immature and inefficient, while American developers are more experienced at flexible and creative borrowing, he said.

Americans also have a better ability to deal across borders, he said. Europeans tend to have experience only in their home countries.

Mr. Noteware cautioned, however, that local building regulations, particularly land use and planning restrictions, are often more significant in Europe. U.S. developers without first-hand knowledge of local market regulations and market needs could find themselves in trouble, he said.

He suggested some Americans should develop joint venture partnerships with European developers, local governments or corporate tenants.

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Office vacancies still a blight on real estate

By Steve Hemmerick

LOS ANGELES — No decline in office vacancies is expected again this year, a continuing problem that has caused a nationwide erosion in office rents and sinking investment performance, according to researchers at TCW Realty Advisors, Los Angeles.

The national office vacancy rate was 19.2% at year-end 1989, down slightly from 19.7% a year ago and the peak of 20.5% in mid-1987.

But according to Jane Holmberg Dorrel, a partner and research director at TCW Realty's investment research division, the average vacancy rate will increase to 19.4% by mid-year.

One problem keeping the vacancy rate high is the slower growth in office sector employment for the year ended June 30.

"Absorption in the past 12 months was the lowest in seven years; it should be even lower next year as the economy slows," Ms. Dorrel said. "We are beginning to see that now."

There has been some reduction in office construction. TCW researchers report there is 155.9 million square feet of space under construction today, down 7% from a year ago and a sharp fall from the peak of 252.6 million square feet in mid-1985.

Total office construction activity has fallen off 38% in the last four years, according to TCW data.

Building permits, an indicator of planned construction, also are down, and it looks like office construction will decline by about 10% to 15% in 1990.

Ordinarily, that would give landlords, many of them pension funds with billions of dollars invested in office buildings, a breather and indicate rising rents.

But Ms. Dorrel said during the year ended June 30, the nation absorbed 90.4 million square feet of office space, a 7.8% decline from the previous 12 months. It is also the lowest annual absorption rate since TCW began tracking national office vacancies in 1983.

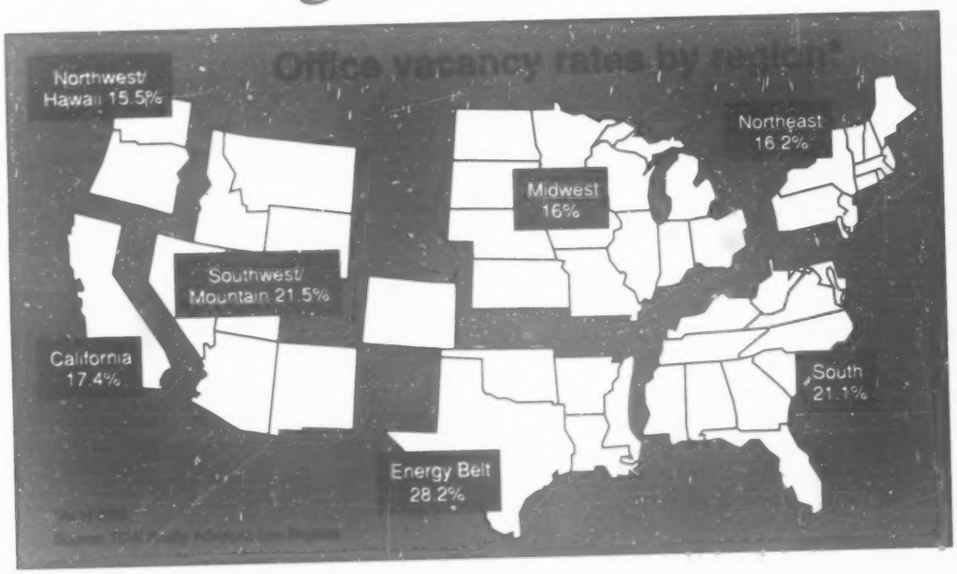
She also said recent employment figures suggest future office space absorption levels will continue to decline in the United States as a whole. There is 25% more office space due for completion in the coming 12 months than the amount of office space absorbed last year.

The situation is particularly troublesome in central business districts or downtown areas, where for the year ended June 30, construction of office space fell 1.5%, but the net absorption rate fell even faster at 2.2%.

As a result, investors can expect little relief from high vacancy rates in the coming year and shouldn't expect a return to more normal office vacancy levels until the late 1990s.

In the meantime, TCW researchers point out, investors continue to be hurt by the high vacancy levels. There is a strong negative correlation between the vacancy levels and a cumulative decline in real effective rents, according to TCW data.

Effective rent is actual rental income minus any free rent or costly modifications for the tenants. TCW researchers found that effective rents have declined an inflation-adjusted 28% between January 1984 and July 1989.



The decline in effective rents has been mounting up fast, but the cumulative effect has almost gone unnoticed except for the damage done in return numbers to pension funds and other large holders of office properties.

TCW researchers emphasize the relationship between rents and office vacancy levels indicates that the only way to have real rental rate increases is for vacancies to decline. The data show strong economic growth alone won't increase effective rents, as some have argued.

But there is good news, Ms. Dorrel said. There are great variations in regions, cities and submarkets. For example, suburban office market construction has been declining faster than office space absorption. Since mid-1985, suburban office construction levels have declined almost 50%, and construction activity in the suburbs declined 9.7% during the first six months of 1989. In comparison, absorption rates have declined 9.3% since mid-1985 and have dropped 3.2% during the first six months of 1989.

In the Energy Belt states where some of the worst office vacancy problems exist, there was a 48.9% decline in construction activity during the year ended June 30 from the previous year.

California was the only area measured by TCW with an increase in office construction. For the year ended June 30, construction increased 8.1%. In the Northeast, office construction declined 12.2%; in the Midwest, it was down 4.9%; in the South, it dropped 9.8%.

In general, suburban office markets have less vacant space than downtown central business districts. TCW researchers say that if there were no new construction, it would take 4.2 years to absorb all the vacant office space in the suburbs vs. six years in downtown areas.

The cities where it would take the longest to absorb available metropolitan office space, and the time required, are: Oklahoma City, 85.9 years; Detroit, 38.8 years; Jacksonville, Fla., 36.8 years; Tulsa, Okla., 34.9 years; San Francisco (East Bay), 31.6 years; Dallas, 19.6 years; San Antonio, Texas, 18.9 years; Memphis, Tenn., 14.8 years; Philadelphia, 12 years; and Atlanta, 10.7 years.

Metropolitan office markets where it would be easiest to absorb available office space, and the time needed, are: Norfolk-Virginia Beach, Va., 1.6 years; San Jose, Calif., 1.7 years; Orlando, Fla., 1.9 years; Honolulu, 2.4 years; Austin, Texas, 2.6 years; Hartford, Conn., 2.7 years; Boston, 2.9 years; and Chicago, 3 years.

New York has 17.5 years and Los Angeles 9.8 years of available office space. ■

County to reduce contributions

By Steve Hemmerick

LOS ANGELES — Los Angeles County Employees' Retirement Association trustees intend to reduce employer contributions to the fund by an estimated $730 million in the 1990s, and increase benefits for retirees, thanks to last decade's market gains and a decision to value plan assets at market, rather than at cost.

The fund will set aside $200 million to adjust payments to the system's 19,000 retirees to within 75% of the income they had at retirement, before it was effectively reduced by inflation.

The fund assets, carried at their $8.1 billion cost, will be revalued to market over a five-year period. The current market value is approximately $10 billion.

The first step in the change to market valuation will reduce the retirement association's unfunded liability by $872 million.

As a result, the required employer contribution can be reduced as well.

If the markets were to fall sharply, however, the county's contribution would have to increase, Charles Conrad, administrator for the retirement plan, explained.

But the county isn't expecting that to happen. Richard B. Dixon, chief administrative officer for the county, encouraged the retirement association to make the actuarial change, and to grant the cost-of-living increase.

Mr. Dixon described the changes as "mutually beneficial" to the county and the retirees.

While corporate plan assets are marked to market, many public plans have not been. Valuing retirement system assets on a cost basis was a common practice for public plans when all assets generally were in bonds and volatility of the bond market was low. Some public plans have been slow to change to market valuation.

For the first six months of 1990, Los Angeles County's contribution to the retirement plan will be reduced by $28.8 million. Last fiscal year, the total employer contribution to the plan was $384 million. Benefit payments were $390 million.

Barring a sharp drop in the stock or bond markets, the county contribution to the plan should be reduced every year and reach a high in reductions of $97.3 million for the fiscal year 1998-'99, according to TPF&C, Los Angeles, the plan's actuary.

For the retirees, the retirement board is allocating $51.2 million to increase benefits in the current year. The board also set aside another $150 million for future benefits when the retirement plan doesn't have surplus investment earnings to adequately continue funding the cost-of-living increase.

Investment earnings are used to fund the plan at an assumed rate of 8% and provide 1% of the fund's total assets as a reserve for deficiencies. Investment returns above that amount are considered surplus and can be used to fund supplemental cost-of-living increases, according to the county government code. ■

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Junk

Continued from page 1

yield bond market and the resulting huge write-offs suffered by First Executive's life and casualty insurance companies. Investment in the market for terminal funding annuities have spurred insurance industry analysts, rating service experts, state and federal insurance regulators and others to scrutinize the quality of real estate loans on commercial properties, residential mortgages, leveraged buyout loans and other investments.

While the financial health of the insurance industry generally is very strong and is supported by adverse asset tests, these experts are growing more concerned about those other assets some of which represent a large percentage of the insurance industry's $1.3 trillion in total assets.

Frederick Townsend, president of Townsend & Schupp Co., Hartford, Conn., a life insurance industry specialist, said people are getting more concerned about the industry's real estate holdings, particularly commercial mortgages, and some life insurance companies that are heavily invested in properties and usually also diversified and those holding mainly parent company securities.

"We're hearing a peak where everyone is concerned about the companies they are doing business with," he said.

Junk bonds make up a small percentage of most companies' assets and the industry's overall assets and losses have been insignificant. Non-investment-grade bonds are less than 4% of industry assets. Insurance companies are estimated to own about 30% of the $200 billion in junk bonds.

Troubled real estate investments have been mounting for many investors, from insurance companies to pension funds to commercial banks. Some insurance companies have taken write-offs for bad real estate investments.

"They (the insurance industry) don't have to disclose the quality of the insurer's asset portfolio. It's a real Sherlock Holmes game sometimes," said Jim Kleiman, vice president at Conning & Co., a Hartford, Conn. investment firm specializing in the insurance industry. "There are no ratings to overall portfolio quality."

The focus of the capital markets and Capitol Hill last week was the bankruptcy filing by junk-bond pioneer Drexel Burnham Lambert and the links between the investment bank and First Executive. First Executive, which wrote annuities for many major corporations to cover their employees' benefits and is famous for investing heavily in junk bonds, took a fourth-quarter write-down of $335 million largely because of defaults and losses in its junk bond portfolio. Many top-notch companies purchased annuities from First Executive because it was a low-cost provider.

That added to an uncomfortable fear that companies weren't exercising much care in selecting an annuity or GIC provider and that looming in the wings were more insurance companies with junk bonds and other investments deemed risky enough to threaten the pensions of millions of Americans.

"It's always been the ultimate nightmare of (pension plan) reversions," said Karen Ferguson, director of the Pension Rights Center, Washington. "Ever since reversions started we have been hearing retirees say 'the annuity contract will be able to pay me for

10 largest group annuity writers

Rating	Writer	Assets $ bils.	% bonds	% long-term investment-grade holdings
A+	Metropolitan	8.2	53	96
A–	Aetna Life	5.6	30	93
A+	Equitable Life	3.9	27	87
A+	New York Life	3.2	56	97
A+	John Hancock	2.9	35	90
A+	Principal Mutual Life	2.8	29	88
A+	Prudential	2.5	44	87
A+	Mutual Life of New York	1.9	27	88
A	Provident Nat'l Life	1.6	56	98
A+	Hartford Life	1.4	65	100

Table based on year-end 1988 data, which is the latest available. A.M. Best's top rating is A++.
Source: A.M. Best Co. Inc., Oldwick, N.J.

The insurance industry and the Pension Benefit Guaranty Corp. have gone out of their way to assure consumers, regulators and lawmakers that in the PBGC's 15-year history there never has been a case of an insurance company failing and not paying annuities.

The insurance industry is especially worried that "a heretofore secure pension alternative ... the annuity ... is being tarred and feathered," said Michael Romig, general counsel at the American Council of Life Insurance, Washington. That, he said, is wrong; annuities are safe.

Labor Secretary Elizabeth Dole told Sen. Howard Metzenbaum in a letter Feb. 12 the PBGC has an inventory of 13,000 standard terminations pending, and substantially less than half — preliminary data indicate 15% — of these cases involve the purchase of annuity contracts. The rest of the terminated plans are paying out benefits in lump sums.

The top 10 group annuity providers include Metropolitan Life Insurance Co., Aetna Life Insurance Co., Equitable Life Assurance Society of the United States, New York Life Insurance Co. and John Hancock Mutual Life Insurance Co. While all have junk-bond holdings, the holdings are not a significant percentage of assets.

"With a rare exception, these companies are not heavily invested in junk bonds," Mr. Romig said. "There's never been a qualified annuity plan that failed to make payments."

Mr. Romig said companies should carefully select a high-quality annuity or GIC provider and examine the quality of its assets. He said one positive to come out of the crisis with First Executive is that companies will be more thorough in the selection process.

Long-term bonds and mortgage loans still represent the vast majority of the insurance industry's holdings, totaling more than 76% of the overall asset portfolio, according to A.M. Best Co., an Oldwick, N.J., company that tracks the insurance industry. Of the $1.3 trillion in insurance industry assets, the assets of the 125 leading companies accounted for 84.3% of the total. About 46.3% of the top 125 companies' assets were invested in bonds — with an estimated 94% in investment-grade bonds and 6% in non-investment grade bonds; 21.6% in mortgages; 12.1% separate accounts; 4.6% policy loans; 3.9% stocks; 2.7% real estate; 2.4% cash and other short-term investments; and 6.4% other investments.

The industry's bond holdings improved in quality during 1988, A.M. Best said. However, the aggregate investments in below investment-grade securities and delinquent and non-performing mortgage loans continued to represent a significant portion of capital and surplus and asset valuation reserves.

The consensus of insurance industry analysts is that the industry's overall exposure to junk bonds is limited. Some of the leading insurance industry executives point out their junk bond exposure is minimal relative to other asset holdings. What high-yield instruments they do hold are on the high quality end.

At USF&G Corp., Baltimore, the firm's high-yield bond portfolio, which represent 6.9% of consolidated investments, were purchased with confidence and will continue to be held with confidence, said Paul Schlough, vice president, investor relations at USF&G. The bulk of their non-investment-grade bonds are rated single B or better. A rating of BBB is the lowest rating considered to be investment grade.

"We're not looking to sell just because there's some worry out there," Mr. Schlough said. "These bonds are being held for the longer term. We are expecting to hold them to maturity."

At Presidential Life Insurance Co., Nyack, N.Y., publicly traded junk bonds represented 27.5% of the company's holdings Dec. 31, and of that, a hefty portion was senior securities and secured securities, said Stan Rubin, vice president-investments.

It is particularly essential to consider an insurer's total asset base when determining the potential risk high-yield holdings might represent, Mr. Rubin said. In the past year, Presidential Life's exposure to publicly traded junk bonds has declined $60 million, while its asset base has grown more than $400 million.

Policyholders also must consider the firm's investment philosophy with respect to high-yield instruments. "The problem with the junk market is a lot of people thought it was liquid," Mr. Rubin said. "We approach it from a long-term investment."

At CIGNA Investments Inc., Hartford, Conn., junk bonds represent 1% to 1.5% of the firm's total fixed income holdings of $31 billion, said Robert W. Burgess, senior vice president. The investments in junk are high-quality bonds, added David Marks, senior vice president.

"For us it really is a non-event," Mr. Marks said, referring to the events at Drexel.

Looking ahead, the insurance industry, like other investors, could face tough times with regard to some of its investments including real estate and mortgages, leveraged buy-out loans and corporate bonds.

Corporate bond defaults totaled $6 billion in 1989, according to Standard & Poor's Corp., New York. S&P believes annual defaults could approach $15 billion in a difficult economic environment. The rating agency says the bumper crop of highly speculative bonds sold in the 1980s. Moody's Investors Service, New York, said 50 U.S. companies defaulted on about $9.3 billion of long-term debt securities in 1989, a record it believes is almost certain to be broken in 1990.

Conning & Co. has expanded its study of insurance industry assets to include all real estate assets in light of the surfacing problems with real estate loans. Mr. Kleiman noted only stocks and bonds are covered by insurance reserve funds state require; other invested assets are not covered. A subcommittee of the National Association of Insurance Commissioners is studying that problem.

In a recent report Moody's also warned GIC's are at the heart of the U.S. life insurance industry's immediate capital shortage. The rating agency said the growth in GIC business has come at the expense of the life insurance industry's historically strong capitalization levels.

Moody's noted the median capitalization ratio has declined for the leading life insurance firms to 6% in 1988 from 7.1% in 1984 while the median risk-adjusted capital ratio slipped to 90% from 110%. A number of insurers have reduced new GIC sales because of

California mulling seat on Drexel panel

By Barry B. Burr

NEW YORK — The California Public Employees' Retirement System, as one of the largest lenders to Drexel Burnham Lambert Group Inc., may take an unprecedented step of seeking a seat on the creditors committee being formed in the investment bank's bankruptcy proceedings.

The pension fund's $23 million note makes it DBL's fourth largest creditor.

Junk bonds and other debt rated below investment grade represent only 2% of the $57 billion fund's $23 billion fixed-income portfolio and less than 1% of its total assets, said DeWitt Bowman, chief investment officer of the Sacramento-based fund.

Of the junk portfolio, Mr. Bowman said it has had one default — Walter Industries Inc., Tampa, Fla., which filed for bankruptcy protection in December. The fund holds three Walter debt issues, totaling $22 million.

Aside from the California Employees — the lone pension fund among the major creditors — most of the large creditors of Drexel Burnham Lambert are foreign lenders, mainly Japanese institutions, according to the investment bank's bankruptcy filing.

In all, DBL owes some $3 billion to some 2,000 creditors.

Among the largest creditors are 15 foreign institutions, together holding $266.3 million, including $164.7 million held by nine Japanese institutions.

Taiyo Mutual Life Insurance Co., Tokyo, is DBL's largest creditor, holding $69.7 million in private placement debt.

Seven U.S. institutions hold a total of $147.7 million in DBL debt. Home Capital Services Inc., New York, a unit of AmBase Corp., with $42.7 million in a master note agreement, is DBL's second largest creditor.

Other major creditors include the Bank of China, Beijing, and the Bank of Ireland, Dublin, each of which is owed $20 million from bank loans; CERA, C.V., Leuven, Belgium, which holds a $10.6 million medium-term note; and the Korea Exchange Bank, Seoul, which holds $10.5 million in commercial paper.

The California fund's DBL note was rated BBB, the lowest investment-grade rating, in 1926 when the fund purchased the debt in a private placement.

"We are now an unsecured creditor and will be attempting to recover as much as we can," said Mr. Bowman.

Seeking a seat on the creditors committee is a "determination that has not been made," he added. Such a membership would be unprecedented for the fund. "We haven't had the experience before," Mr. Bowman added.

Mr. Bowman said Drexel's bankruptcy has roiled the $200 billion junk bond market, although the California fund is seeking buying opportunities.

"I do think there is greater distress on (junk bonds)," he said because of the loss of DBL and its own investment portfolio of junk bonds, estimated at a $1 billion market value, which likely will be liquidated. In addition, he cited the financial troubles of First Executive Corp. and its insurance company unit, which has a huge junk-bond portfolio, reported at half of its $19 billion in assets. Also, he cited the debacle in the savings and loan industry, which has depressed the market because of new regulations requiring the institutions to sell their junk bonds, regardless of the financial strength of their issuers.

In the short run, Mr. Bowman said this will hurt the junk portfolios of investors who have to raise cash. "But we don't have to sell," he said. "In the long run, the distress market is creating buying opportunities. We are looking to see if there are buying opportunities, (although) we haven't purchased any yet."

Firm expands to Japan, U.K.

NEW YORK — Equitable Capital Management Corp., New York, with $38 billion under management, has made its first foreign expansion by opening offices in Tokyo and London.

In Tokyo, Equitable Capital Management Japan Ltd. will be headed by Takahiro Fujino, who has spent the past 27 years with the Bank of Tokyo Ltd. in Europe, Latin America and North America.

To head the London office, Equitable has hired Axel K.A. Hansing, who most recently served as an executive vice president in the New York branch of Bayerische Hypothekenund Wechsel-Bank.

Frank Savage, Equitable Capital's vice chairman, said the two offices will offer the full range of Equitable Capital's U.S. services in money management and corporate finance.

"In Tokyo, we have been doing business with a number of major institutional clients, and since that number is growing rapidly and we've had success we needed to locate an office there to serve